



FORRESTALL, SAVAGE, GALEANO & LI, CPA, L.L.C.



Congratulations on owning your own business! Based on many years of answering questions for new and experienced business owners, our firm has assembled this booklet as a starting point for the setup of your business. This booklet is not intended to cover all business issues or be the final answer to your questions; it is intended to be a list of items that may need to be addressed by your company.

There likely are, or will be, special circumstances regarding your business that will require specific attention. Our CPA firm's staff will be glad to assist you in providing more specific answers to your individual needs as they arise.

Please feel free to contact us at any time for assistance.

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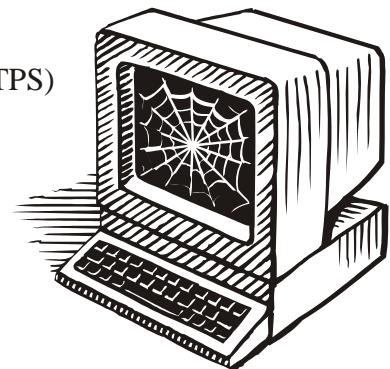
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Table of Contents



1. Structure of Your Business
 - A. Choosing Entity Types
 - a. Chart for Comparison of Options
 - b. S Corporations, C Corporations, LLC, and Partnerships
 - B. How to Set Up a Corporation, Partnership, or LLC
 - a. Setting Up Your Company as a Delaware, Nevada, or Florida Corporation
 - b. What is a Hobby According to the IRS
 - c. When is a Business Considered 'Passive' not 'Active'-Why Does it Matter
 - C. Choosing an Accounting Period
 - D. D/B/A Fictitious Name Registration
 - E. Board of Directors (If a Corporation)
 - a. Differences in Shareholders, Directors, and Officers
 - b. How Many Officers Needed
 - F. Opening a Checking Account
 - G. Business Plans
2. Financing/Obtaining Loans
 - A. Banks and the Small Business Association (SBA)
 - a. SBA 504 and 7A Loans-What are They and Who is Eligible
 - b. Conventional-What Do Banks Want to See
 - c. Personal Guarantees
3. Employees
 - A. Employee vs. Contractor
 - B. Forms and Tax Filings for Employees
 - C. Health Insurance
 - a. COBRA and Family Medical Leave Act
 - D. Unemployment Insurance
 - E. Bonuses/Commissions/Tips
 - F. Chart for Overview of Employment Rights Information Security Act (ERISA)
 - a. Section 1: Basic Disclosure Requirements for Pension and Welfare Benefit Plans
 - b. Section 2: Additional Disclosure Requirements for Pension Plans
4. Business Insurance
 - A. Property and Casualty, Error and Omission, Umbrella, Professional Liability, and Auto
 - B. Workman's Compensation Insurance
 - C. Retirement Plans for the Business

5. Records and Accounting
 - A. Debits and Credits
 - B. Cash Method
 - C. Accrual Method
 - D. QuickBooks and PeachTree Accounting Software
 - E. Controller for Hire
 - F. IRS Definition of a Business Deduction
 - a. Common Items Small Businesses Deduct
 - b. Other Things CPAs Need to Know That Are Not Deductible
 - G. Car Expenses
 - a. Actual Expenses
 - b. Standard Mileage Rate
 - H. Travel Expenses
 - a. Lodging Receipts
 - b. Transportation Receipts
 - c. Meal Receipts
 - I. Home Expenses
 - J. Independent Contractors
 - K. What Do You Need to Keep Records of and How Long
6. IRS and State Audits
 - A. Representation by a CPA Firm
 - a. What Happens When You are Selected for Audit
 - B. Offer in Compromise and Payment Plans
7. Benefits
 - A. Owner and Employee Benefits
 - B. Cafeteria Plans
 - C. Qualified Benefits
 - D. Plans That Favor Highly Compensated Employees
 - E. Plans That Favor Key Employees
 - F. Qualified Transportation Benefits
8. Taxes
 - A. Payroll Filings
 - B. Who to Prepare Income Tax Returns
 - C. Sales and Use Tax in Georgia
 - D. NEXUS (Doing Business in Other States)
 - E. Rental Property
 - F. 1031 Exchange
 - G. Personal Property Tax
 - H. Electronic Federal Tax Payment System (EFTPS)
9. Business Advisors
 - A. CPA/Banker/Attorney/Computer Consultant
10. List of IRS Publications and Web Sites for Small Businesses
11. Forrestall, Savage, Galeano, & Li, CPA, L.L.C.
12. Check List for Starting Business



Structure of Your Business

Choosing entity type

Choosing a legal and tax structure of your business is based on several factors to include in your Business Plan for the current year and future years. Please review the following chart for a comparative overview of structure options for

your business. I recommend that you contact our Firm to review your decision for a business structure as soon as possible to ensure that your structure is going to provide you with the best legal protection and tax savings possible.

	Sole Proprietor	Partnership	Corporate	S Corporation	Ltd. Liability Co.
IRS Pub.	334	541	542	589	None
IRS Form	Sch. C, 1040	1065	1120	1120S	1065
Entity Description	One individual who carries on an unincorporated trade or business. (A husband and wife who own a business jointly and contribute to the business as owners, generally file Form 1065 as a partnership; however, some states permit a Joint Schedule C or F.) There is no personal protection from law suits from Company activity.	An association of two or more individuals who carry on a trade or enter into a business endeavor. Each partner contributes cash, property, and/or services. A joint undertaking merely to share expenses or ownership of property does not necessarily constitute a partnership. A partnership has its own legal status.	A business entity that carries its own legal status, separate and distinct, from its owners. Corporate characteristics: Continuity of life, centralized management, limited liability of the owners (legal protection), and free transferability of ownership interest (sale of stock).	A corporation can elect to be taxed as an S Corporation by filing Form 2553. Only domestic corporations with one class of stock are eligible. Limited to 100 shareholders, and may not have another corporation as a shareholder (other than a 100% S-Corp parent). Other restrictions apply.	Similar legal protection of a Corporation but flexible on how you are taxed. File IRS Form 8832 to be taxed as a partnership or taxable as a Corporation or an S Corp. You have 75 days to file the 8832.
Organization & Administration	Easiest business to organize. Allows complete intermingling of business and personal funds. Business return is filed along with the owner's individual income tax return. Commonly set up as a d/b/a.	A written partnership agreement is recommended, but not required. The partnership agreement determines how income and losses are allocated to the partners. If a partnership agreement does not exist, partnership items pass through based on the partners' ownership interest.	Written agreement required to be sent to Secretary of State. Must hold periodic or annual board meetings and keep board of directors minutes. Must comply with Federal and State regulations. If you don't comply with these items, you can lose your legal protection.	Set up as a regular corporation. Must make election (Form 2553) to be treated as an S Corporation (must meet eligibility requirements). Certain events will cause automatic termination of S status. Failure of any one of six eligibility requirements terminates election.	Very similar to Partnership facts. For Federal tax purposes treated as a partnership, unless election filed to be taxable as a corporation. Single member LLCs can be disregarded as a separate entity or same as sole proprietorship

	Owner is free to make all business decisions.	Control of the business operations is divided among the partners according to agreement.	Shareholders have control over the corporation to the extent that they own voting stock.	Shareholders have control over the corporation to the extent that they own voting stock.	Control is divided among members in accordance with agreement.
Losses	Business losses can offset other income such as interest, capital gains, or a spouse's wages if filing a joint return. Subject to "Hobby Loss" rules under IRC § 183.	Losses flow through to partners. Recognition of loss by a partner is limited by the partner's basis, at-risk rules, and passive activity rules. Subject to "Hobby Loss" rules under IRC § 183.	Capital losses are allowed only to the extent of capital gains. Net operating loss of a corporation may be carried back or carried over against corporate income, but is not directly passed through to shareholders.	Losses flow through to shareholders. Recognition of loss is limited by the shareholder's basis, at-risk rules, and passive activity rules. Subject to "Hobby Loss" rules under IRC § 183.	Losses flow through to members. Recognition of loss by members is limited by the member's basis, at-risk rules, and passive activity rules. Subject to "Hobby Loss" rules under IRC § 183.
Passive Loss Limitations	Yes.	Yes, at partner level.	No, unless a PSC or closely-held corporation.	Yes, at shareholder level	Yes, at member level; current law unclear for Limited members.
Special Allocations Of Income & Expenses Among Owners	Not Applicable.	Yes, special allocations permitted. Income does not have to be allocated by % ownership.	Not permitted.	Not Permitted. Income must be allocated to 1040 of owners based on % of ownership.	Yes, special allocations permitted. Income does not have to be allocated by % ownership.
Personal Liability	Sole Proprietor is liable for all business debts, actions and law suits.	A general partner is personally liable for all partnership debt. A limited partner's liability is usually limited to the partner's investment in the partnership.	Shareholders are not liable for debts incurred by the corporation. Liability is generally limited to the amount invested. Professionals are responsible for their own actions.	Shareholders have limited liability, just as with a C Corporation. Again, professionals are liable for their own actions.	The degree of liability protection for LLC members varies from state to state. Generally, not personally liable (except professional's own actions).
Wages & SE Tax	Owner is subject to self-employment tax of 15.3% of taxable profits . Self-employment tax is computed on Schedule SE and is reported as "Other Taxes" on Form 1040. One-half of SE tax is deductible "above the line." Will not get a W2.	A general partner's share of business income (including guaranteed payments) is subject to self-employment tax. Same as sole proprietorship. A limited partner's share of business income is not subject to self-employment tax, unless the partner performs services for the partnership. No W2.	Shareholders who perform services for a corporation, including officers, are treated as employees. Wages of corporate employees are subject to payroll tax and withholding. Wages paid to employee-shareholders must be "reasonable." Dividends are not wages special rules.	An employee-shareholder of an S Corporation receives wages for services rendered. Wages paid to employee-shareholder must be " reasonable. " Additional profits are passed through to the shareholder as distributions not subject to SE tax. Double taxation of profits is generally avoided.	Earnings are generally subject to self-employment tax unless members establish they do not participate in management or operation. Same as partnership.

Advantages	Minimum legal restrictions. Easy to discontinue.	A partnership can be a good way to combine skill and/or financial abilities of several different people.	Limited Liability. Perpetual life. Ability to raise capital through issuance of stock.	Limited Liability. Avoids double taxation of profits. Profits passed through are not subject to SE tax as in a partnership.	Avoids certain S Corporation restrictions. Avoids double taxation of profits.
Disadvantages	Unlimited liability. May not bring in new owners or outside capital contributions. Income tax cannot be deferred by retaining profits.	A partnership is often easier to get into than out of. General partners are liable for actions of other partners. Usually partners are subject to SE tax on profits.	Double taxation of profits. Must pay tax on profits in corporation. Have to pay tax again to get the money out (W2 or dividend).	Shareholders pay tax on earnings even if undistributed. Less flexibility in choosing a tax year. Contribution limits to a qualified retirement plan are based on employee-shareholder's wages, not overall profits such as a sole proprietor.	Earnings are generally subject to self-employment tax. Inconsistent treatment state to state. Generally have at least two owners.

S Corporations

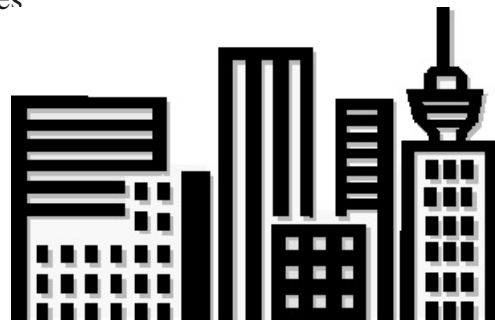
An S Corporation is a corporation that has filed an election with the IRS to become a small business corporation by filing Form 2553. This is a one-time election that should be done at the start of your business operations and must be filed within 75 days from operations beginning. You can elect to change to an S Corporation after you start your business; however, you should consult with our Firm to determine how this will affect your taxable income and determine if it is worthwhile.

S Corporations allow the business owner to be compensated as an employee in the form of a W-2 for a reasonable wage. Profits from the company will be exempt from social security and Medicare taxes, resulting in a tax savings of approximately 8% of profits in taxes. There are several limitations on deductions for benefits and expenses paid to owners of S Corporations. Some of these limitations can be overcome with planning assistance from our Firm. Profits from the Company are divided amongst the owners by the percentage of the Company that they own. You will pay income tax on income that the S Corp generates each year when you make the income, not when you take it. Leaving money in the Company checking account will not keep you from paying tax on it. It is possible to have to pay tax on income you have not received yet.

If someone sues your company, and your company is incorporated as an S or a C; normally, the person or company suing you will only be able to go after your assets in the business and not be able to get your house or personal assets.

C Corporations

All corporations are C Corporations unless they make an election to become an S Corporation. C Corporations exist for income tax purposes as a living entity that pays taxes on profits and does not benefit the owners of the company if the company loses money during a year. There are several reasons why a C Corporation would be preferred over an S Corporation. That can be discussed in detail with one of the CPA's of Forrestall, Savage, Galeano & Li, CPA, L.L.C. The only way to get profits or money out of a C Corporation is to pay compensation to owners as W-2 wages or as dividends (which are taxable to the owner and NOT deductible to the company, but are now taxed at one of the lowest tax rates



possible). If the company makes a profit and pays tax on the profit, the owner will need to take compensation as wages (subject to individual taxes as a W-2), and pay tax again on the same profits. Limitations of owner benefits and expenses in an S Corporation do not apply to a C Corporation.

Limited Liability Companies (LLC)

An LLC is formed for legal purposes to reduce the level of liability that you could have when being sued to the assets of the company further limited by your investment in the company, if there are multiple owners. The IRS does not recognize LLCs as a tax entity; therefore, you must further elect to be taxed as a partnership, C Corporation, or an S Corporation. You will be treated for tax purposes as if you are a C Corp, S Corp, or Partnership, depending on the facts.

Partnerships

A partnership is taxed the same as a sole proprietorship with multiple owners. A one-partner partnership is a sole proprietorship. Partnerships are beneficial when ownership percentages will not equal the same percentage of the share in profits. A partnership can choose to change to allocation of profits to partners each year without changing the ownership percentages.

Every company that has multiple owners or partners should take time to go over the three D's together. The Three D's are what the Company and the remaining owners will do if any one of the Three D's happens. The Three D's are Divorce, Disability, and Death. I suggest you cover these events, write your agreement of response, and have all owners sign it. I also suggest that you add this statement to your corporate minutes book.

I also suggest that when having the Three D conversation, you define what everyone agrees the definition of compensation is, what is included, and what is not. It is better to discuss this before you have made money in the business.

A partnership is similar to a marriage,

not hard to get into but can be very expensive to get out of and hurt everyone, even the business. The better job everyone can do with a 'prenuptial agreement, the better chance you can remain friends and the business survive if something does not go as you planned or hoped for.

You can additionally go to these IRS publications:

- Publication 541, *Partnerships*
- Publication 542, *Corporations*
- Publication 3402 (PDF), *Tax Issues for LLCs*
- Publication 334, *Tax Guide for Small Business*
- *Entities: Sole Proprietor, Partnership, Limited Liability Company/Partnership (LLC/LLP), Corporation, Subchapter S Corporation*

How to Set Up a Corporation, Partnership or Limited Liability Corporation

Any of these entities must be registered with and an application filed with the Secretary of State. You do not have to be an Attorney to form your entity; however, we do recommend that you consult with your CPA or your attorney. For our local area, average range of cost to form a corporation is from \$700 to \$1,000. Forrestall, Savage, Galeano & Li, CPA, can help you facilitate this process and can file the necessary paperwork to incorporate your Business. Please contact our office for a quote.

If you do wish to form your entity yourself, you can obtain the necessary details on the Secretary of State's web site, www.sos.ga.us.gov. There are several templates that may be helpful on their site.



Should You Consider Setting Up Your Company as a Delaware, Nevada, or Florida Corporation to Escape State Taxes?

There are currently seven states in the United States that do not have Individual Income taxes. Unfortunately, Georgia is not one of these States. Please see the section later in this guide titled 'Nexus', which will explain why you will not escape Georgia taxes and most often end up paying more in fees to another State. Sometimes there are legitimate legal benefits of having a Corporation set up in another State. Some of these reasons can be explained to you on the individual Secretary of State web site for each State you are considering or consulting with an attorney.

What is a Hobby according to the IRS and why should you care?

Any business may be a hobby to you because you enjoy doing it, but the IRS definition of a business activity being considered a Hobby results in limitations of eliminations or most tax benefits you may gain with activity. The following table is an excerpt from the IRS pub 15A.

Frequently Asked Questions - Business vs. Hobby

How do you distinguish between a business and a hobby?

Since hobby expenses are deductible only to the extent of hobby income, it is important to distinguish hobby expenses from expenses incurred in an activity engaged in for profit. In making this distinction, all facts and circumstances with respect to the activity are taken into account and no one factor is determinative. Among the factors which should normally be taken into account are the following:

- Whether you carry on the activity in a business-like manner

- Whether the time and effort you put into the activity indicate you intend to make it profitable

- Whether you depend on income from the activity for your livelihood

- Whether your losses are due to circumstances beyond your control (or are normal in the startup phase of your type of business)

- Whether you change your methods of operation in an attempt to improve profitability

- Whether you, or your advisors, have the knowledge needed to carry on the activity as a successful business

- Whether you were successful in making a profit in similar activities in the past

- Whether the activity makes a profit in some years, and how much profit it makes

- Whether you can expect to make a future profit from the appreciation of the assets used in the activity

Additional information on this topic is available in Section 1.183-2 (b) of the Federal tax regulations.

References:

- Treas. Reg. 1.183-2 (b)



When a business or activity is considered 'Passive' not 'Active' and Why does it Matter.

An activity that you do not materially participate in is considered a passive activity. Rental activity is generally a good example of a passive activity. It usually does not take much time or action to rent or collect rent on a business.

If an activity is passive, then any income is not subject to Social Security and Medicare taxes since you did not 'earn' the wages from you working. If the activity generates a loss, the loss will likely be limited to how much you can deduct in any one year, with the remainder being carried over to the future for deduction.

Choosing an Accounting Period

The "tax year" is determined on the type of business you have in figuring taxable income. A "tax year" is an annual accounting period for keeping records and reporting income and expenses.

A "calendar year" runs from January 1 through December 31. One of the advantages of a calendar year to small business owners is that payers of interest, dividends, and various other kinds of income send their reports to you on a calendar year basis; so, it is easier to determine your personal taxable income. The IRS prefers that most businesses use a calendar year for their tax year. S Corporations and Sole Proprietors use calendar year accounting periods.

Some businesses have "seasons" that do not follow the traditional calendar. If your business is seasonal, you may use a 12-month period that begins with a month other than January 1 and ends 12 months thereafter. Accounting periods that do not begin on January 1 and end on December 31, are referred to as "fiscal."

Whether you choose a calendar year

or a fiscal year, you must use this period on the first tax return you file for your business. After the initial year and initial tax return filing, you must request and obtain IRS approval to change your year-end accounting period, and pay a user fee of a few thousand dollars to the IRS for the application. This is done by filing IRS Form 1128. Additional fees are required when requesting this change, and additional tax calculations are also required for the tax return to complete a period change. You have to have a good reason, in the eyes of the IRS, of why you need an accounting period other than December if you are changing from a December year end.

Using a Fictitious Name (d/b/a Doing Business As)

You can operate your business in any name of your choosing. Should you choose to use a name other than the legal name of your corporation, or if you are a sole proprietor, you most likely will need to use a d/b/a.

To use a d/b/a, you need to go to your county court house and register your company doing business under a fictitious name. This is a requirement and is helpful if someone is trying to locate your business through legal records.

Board of Directors (if a Corporation)

There is no requirement to have a board of directors in your corporation. If your business is going to be operated by the owners of your corporation, it is common to elect, not to establish, a board of directors when the corporation is established. This election is at the time the corporation is formed.

What is the difference between Shareholders, Directors, and Officers of a corporation?

Shareholders own the Corporation. Shareholders elect Directors who make corporate decisions. Directors appoint Officers (President, Vice President, Treasurer, and Secretary) who take care of day-to-day business, and who carry out corporate decisions made by the Board of Directors. At the end of the day, the Director can fire the President of a Company, and the Director can be fired by the shareholders or owners.

How Many Officers Do I Need?

You are required to have a President and a Secretary; however, one person can fill both offices. The offices of Vice President and Treasurer are optional; however, the Secretary of State will request the name of the Treasurer in the Annual Registration to be filed each year. For that reason, we suggest that you also name a Treasurer. One person can hold all three offices. The same person should **not** hold the offices of President and Vice President, as the primary job of the Vice President is to fill in for the President when the President is unable to perform his/her duties.

Opening a Checking Account

If you are a sole proprietor, you **should** (close to being a must) open a separate business checking account for your business at a local bank. Only business activity should go through this account. If you loan your business money, you should keep the deposit separate from sales deposits. Keep records of these amounts to ensure that the IRS will not mistake these funds as income. Unfortunately, poor records sometimes results in guilt until proven innocent (or income until proven it is not with the IRS).

If you are a corporation or a partnership, you need to open a business checking account. The bank that you choose

to open your account with will require a Federal Employers Identification Number (EIN) for your business. This number can be obtained by filling out IRS Form SS-4 and faxing this to the IRS. I suggest that you go online to www.IRS.GOV and apply for the number. You can get it very quickly. You will receive a letter informing you of the number that has been assigned to your business. This number is used just like your social security number but is specific for your business. You will also need certified information from the Secretary of State that you are a legal entity in the State and probably your corporate seal.

Business Plans

We strongly recommend that you prepare a Business Plan. A Business Plan describes the ownership of the entity, the nature and purpose of the business, what services will be sold, what the market is for, your product or services, and a potential cash flow projection for the first one or two years of operations. If you wish to borrow money from a bank or the SBA, they will require this information.

There are several free resources to assist you in preparing your business plan. You can contact the Fanning Institute at the University of Georgia or search online for other products. There is no right or wrong answer to what is in your business plan. The plan is intended to provide you direction and formulate a plan of action for how your business will operate and thrive.

I suggest that you write as much as you can yourself; it doesn't have to be in a professional form at all. In areas that you may need help, probably the financial area and a budget, our firm can help. You should have all of the other information in your head and hopefully be able to move them to paper.



Financing/Obtaining Loans

Banks and the SBA

The Small Business Association (SBA) is a government-backed organization that helps small businesses obtain financing and other business services. Our local SBA representative's office is the Georgia Mountain Regional Economic Development Center (EDC) in Gainesville. The SBA offers two major types of loans in their 504 and 7A loans. A 504 loan is for large purchases of fixed assets (land, building and large equipment) and the 7A loan is for the remaining items (inventory, small equipment, leasehold improvement, and working capital). These loans are beneficial in that they are repaid over commonly 10 years for the 7A and 15-20 years for the 504 at a fixed low interest rate.

The bank and the SBA will require a business plan, biography of owners or managers of the company, personal financial statements of the owners, and the most current three-year tax returns for the company and the owners. Banks and the SBA generally require collateral of at least 25% of the loan amount. They may also wish to see that the company is profitable, or has working capital to cover several months of operation expenses and costs.

The economy and the industry for your business will also be part of the decision of a bank to lend you money. If a bank is not interested in lending you funds, it may be due to several factors that can change over time or may not be a factor with other banks. Forrestall, Savage, Galeano & Li, CPA, L.L.C., has established strong relationships with several banks and the SBA to help you find a source to borrow funds for your business needs. Our firm has years of experience in assisting our clients in obtaining the right financing for their business needs.

Leasing business equipment (computers and other small equipment) is

also an option for many businesses. There are several pros and cons for tax purposes to leasing that should be reviewed prior to entering into a business lease. We often have contacts for specific industries who will lease equipment to business owners, often when a bank will not loan money to you.

All financial institutions will likely require a **personal guarantee from all owners** of a company for any loan. This provides the bank assurance that if your company goes bankrupt, then they will have means to collect their loan from you personally. This also provides assurance to the bank that you are committed to your business and that you have enough confidence in your business to pledge your personal assets. If you don't have enough confidence in the success of your business to pledge your assets, then why should the bank?

Employees

Employees vs. Contractors

When you hire an expert for special skills, laborers, or professional guidance, they are either independent contractors or employees. Understanding the difference is crucial when it comes to recordkeeping and tax reporting. To determine if a worker is an independent contractor or an employee, **consider behavioral control, financial control, and relationship of the parties.**

Generally, anyone who performs services for you is your employee, if you have the right to control **what will be done** and **how it will be done.**

Who directs or controls the business aspects of work? Contractors who are in business for themselves usually offer their services to the public, and may have a significant investment in the facilities used in performing services. They are more likely to have unreimbursed expenses than employees and can realize a profit or incur a loss.

How do you and the worker perceive your relationship? A permanent work

relationship and worker benefits generally indicate an employer-employee relationship. However, the substance of the relationship determines whether your workers are employees, not a job title or written contract. Behavior Control examples that generally result in you being the employer and they are the employee:

- **Instructions** an employee is generally told:

- When, where and how to work
- What tools and equipment to use
- What workers to hire or to assist in the work
- Where to purchase supplies and services
- What work must be performed by a specified individual
- What order or sequence to follow

- **Training** an employee may be trained to perform services in a particular manner.

Financial Control examples:

- The extent to which the worker has unreimbursed expenses
- The extent of the worker's investment
- The extent to which the worker makes services available to the market (others)
- How the business pays the worker
- The extent to which the work can

realize a profit or loss

Type of Relationship:

- Written contracts describing the relationship the parties intend to create (facts will override what is in a contract)
- Whether the worker is provided with employee-type benefits
- The permanency of the relationship
- How integral the services are to the principal activity

Certain categories of workers are covered by specific laws that establish that they are employees and non employees. Special rules apply to them. See IRS Publication 15-A for more details or contact our CPA firm.

Forms and Tax Filings for Employees

The IRS has almost every Federal form you could need in your business listed on their web site.

You must withhold income tax on employee's wages, withhold social security and Medicare (FICA) taxes and match the FICA as the employer, pay federal and state unemployment tax, and workman's compensation insurance on employees. (See publication 15 or publication Circular E.)

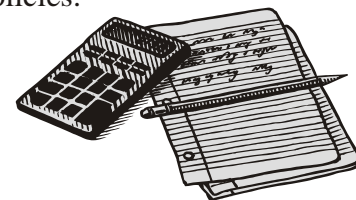
Contractors that you pay \$600 or more during the calendar year for services provided your business must receive a 1099-MISC from you by January 31. If the contractor is incorporated, you do not have to file a 1099 for them. To determine if they are incorporated, check the Secretary of State's web site for a corporate search by the name of the company.

All employees must fill out a W4 and I9 with the company. The name and SSN listed on each W-2 must match the name and SSN on the employee's social security card. SSA's free employee verification service identifies inaccurate name/SSN combinations so that they can be corrected prior to filing W-2's. Contact the service at 800-772-6270. Also have your EIN available.

If you employ staff and pay them by the hour, then your staff may be subject to overtime compensation. Hourly and salaried staff who do not act in a management capacity (acts more like an employee), are generally subject to overtime when they work more than 40 hours in a one-week period. It is not computed by the day, nor by the pay period; it is computed by the week.

Health Insurance

The Gwinnett County Chamber of Commerce offers open enrollment for company group health insurance coverage. Additionally, you can contact local independent insurance agents to obtain group or individual policies.



Health insurance premiums are deductible to the company. The way the benefits are offered to employees and deductible to the company can be modified. Contact our CPA firm for more details to receive the largest tax savings for these benefits.

COBRA and Family Medical Leave Act

Cobra was enacted in 1986 and requires most group health insurance plans to provide a temporary continuation of group coverage that otherwise might be terminated. Cobra generally applies to all private-sector group health plans maintained by employers that have **at least 20 employees** on more than 50 percent of its typical business days in the previous calendar year. Both full-time and part-time employees are counted to determine if Cobra applies.

Your company may be required to offer Cobra and other Federal Labor benefits (Family Medical Leave Act and others) if you have over 20 employees (see definition above).

Unemployment Insurance

Each company will pay unemployment insurance to the state and the federal government. The total maximum cost is under \$300 annually per employee. This amount will decrease over time as your company builds a history. If an employee files for unemployment benefits, you will be notified by mail that they have filed. If you wish to contest their benefits, you can do so (employees fired for cause that has been documented will not be eligible). The last three employers of your employee will be subject to increased rates from the employee receiving benefits. However, the maximum cost remains \$300 per employee per year. You do not pay the benefits to the employee; the state and federal government will pay the employee. As the owner of the company, you are NOT eligible for benefits; but you do have to pay up to \$300, annually on all owners.

Bonuses/Commissions/Tips

All wages, in any form, are subject to withholding and FICA. It does not matter if you call the compensation a “bonus, commission, tips, or Christmas bonus.” Employees cannot receive a W-2 and a 1099 in the same year, unless they were hired as an employee during the year and will only get a W-2 next year and have not previously received a W-2. In 99% of the cases, it does not matter how you classify the payment to them for services, it will be taxed on a W2.



Overview of ERISA Title I Basic Disclosure Requirements
Section 1: Basic Disclosure Requirements for Pension and Welfare Benefit Plans

Document	Type of Information	To Whom	When
Summary plan description (SPD)	Primary vehicle for informing participants and beneficiaries about their plan and how it operates. Must be written for average participant and be sufficiently comprehensive to apprise covered persons of their benefits, rights, and obligations under the plan. Must accurately reflect the plans contents as of the date not earlier than 120 days prior to the date the SPD is disclosed. See 29 CFR §§ 2520.102-2 and 2520.102-3 for style, format, and content requirements.	Participants and those pension plan beneficiaries receiving benefits. (Also see Plan Documents below for persons with the right to obtain SPD upon request.) See 29 CFR § 2520.102-2(c) for provisions on foreign language assistance when a certain portion of plan participants are literate only in the same non-English language.	Automatically to participants within 90 days of becoming covered by the plan and to pension plan beneficiaries within 90 days after first receiving benefits. However, a plan has 120 days after becoming subject to ERISA to distribute the SPD. Updated SPD must be furnished every 5 years if changes made to SPD information or plan is amended. Otherwise, must be furnished every 10 years. See 29 CFR § 2520.104b-2.
Summary of material modification (SMM)	Describes material modifications to a plan and changes in the information required to be in the SPD. Distribution of updated SPD satisfies this requirement. See 29 CFR B 2520.1040b-3.	Participants and those pension plan beneficiaries receiving benefits. (Also, see Plan Documents below for persons with the right to obtain SMM upon request.)	Automatically to participants and pension plan beneficiaries receiving benefits; not later than 210 days after the end of the plan year in which the change is adopted.
Summary annual report (SAR)	Narrative summary of the Form 5500. See 29 CFR § 2520.104b-10(d) for prescribed format.	Participants and those pension plan beneficiaries receiving benefits.	Automatically to participants and pension plan beneficiaries receiving benefits within 9 months after end of plan year, or 2 months after due date for filing Form 5500 (with approved extension).
Notification of benefit determination (claims notices or explanation of benefits)	Information regarding benefit claim determinations. Adverse benefit determinations must include required disclosures (e.g., the specific reason(s) for the denial of a claim, reference to the specific plan provisions on which the benefit determination is based, and a description of the plan is appeal procedures).	Claimants (participants and beneficiaries or authorized claims representatives).	Requirements vary depending on type of plan and type of benefit claim involved. See 29 CFR § 2560.503-1 for prescribed claims procedures requirements.
Plan documents	The plan administrator must furnish copies of certain documents upon written request and must have copies available for examination. The documents include the latest updated SPD, latest Form 5500, trust agreement, and other instruments under which the plan is established or operated.	Participants and beneficiaries. Also see 29 CFR § 2520.104a-8 regarding the Department's authority to request documents.	Copies must be furnished no later than 30 days after a written request. Plan administrator must make copies available at its principal office and certain other locations as specified in 29 CFR B 2520.104b-1(b).

Section 2: Additional Disclosure Requirements for Pension Plans

Document	Type of Information	To Whom	When
<i>Individual benefit statements</i>	Statements of total accrued benefits and total nonforfeitable pension benefits, if any, which have accrued, or the earliest date on which benefits become nonforfeitable. See ERISA BB 105 AND 209.	Participants and beneficiaries	Requirements vary depending on whether the administrator is responding to a written request for an accrued benefit statement (generally such statements must be furnished within 30 days of the request but no more than once in a 12 month period), or whether the administrator is furnishing the notice automatically due to the occurrence of certain specified events such as certain separations from covered service and certain breaks in service. The requirements also vary depending on whether more than one unaffiliated employer is required to contribute to the plan.
<i>Suspension of benefits notice</i>	Notice that benefit payments are being suspended during certain periods of employment or reemployment. See 29 CFR § 2530.203-3 for prescribed requirements.	Employees whose benefits are suspended.	During first month or payroll period in which the withholding of benefit payment occurs.
<i>Notice of transfer of excess pension assets to retiree health benefit account</i>	Notification of transfer of defined benefit plan excess assets to retiree health benefit account. See ERISA § 101(e) for prescribed requirements.	Employer sponsoring pension plan from which transfer is made must give notice to the Secretaries of Labor and Treasury, each employee organization representing plan participants and the plan administrator. Plan administrator must notify each participant and beneficiary under the plan.	Notices must be given not later than 60 days before the date of the transfer. The employer notice also must be available for inspection in the principal office of the administrator.
<i>Domestic relations order (DRO) and qualified domestic relations order</i>	Notifications from plan administrator regarding its receipt of a DRO, and upon a determination as to whether the DRO is qualified. For more information see ERISA § 206(d)(3) and the EBSA booklet QDROs: The Division of Pensions Through Qualified Domestic Relations Orders.	Participants, and alternate payees (i.e., spouse, former spouse, child, or other dependent of a participant named in a DRO as having a right to receive all or a portion of the participant's plan benefits).	Administrator, upon receipt of the DRO, must promptly issue the notice (including the plan procedures for determining its qualified status). The second notice, regarding whether the DRO is qualified, must be issued within a reasonable period of the time after receipt of the DRO.
<i>Notice of significant reduction in future</i>	Notice of plan amendments to defined benefit plans and certain defined contribution plans that provide for a significant reduction in the rate of future benefit accruals or the elimination or significant reduction in an early retirement benefit or retirement-type subsidy. See 26 CFR § 54.4980F-1 for further information.	Participants, alternate payees under a QDRO, and employee organizations.	Except as provided in regulations prescribed by the Secretary of Treasury, notice must be provided within a reasonable time before the effective date of the plan amendment.
<i>Notice of failure to meet minimum</i>	Notification of failure to make a required	Participants, beneficiaries, and	Must be furnished within a reasonable

Document	Type of Information	To Whom	When
<i>Funding standards</i>	installment or other plan contribution to satisfy minimum funding standard within 60 days of contribution due date. (Not applicable to multi-employer plans.) See ERISA § 101(d) for more information.	alternative payees under QDROS.	period of time after the failure. ERISA § 4011 notice, if provided within a reasonable time after the failure, satisfies this requirement. See 60 F.R. 34412 (June 30, 1995). Notice is not required if a funding waiver is requested in a timely manner. If waiver is denied, notice must be provided within 60 days after the denial.
<i>Section 404(c) plan disclosures</i>	Investment-related and certain other disclosures for participant-directed individual account plans described in 29 CFR B 2550.303c-1.	Participants or beneficiaries, as applicable.	Certain information should be furnished to participants or beneficiaries before the time when investment instructions are to be made; certain information must be furnished upon request.
<i>Notice of blackout period or individual account plans</i>	Notification of any period of more than 3 consecutive business days when there is a temporary suspension, limitation or restriction under an individual account plan on directing or diversifying plan assets, obtaining loans, or obtaining distributions.	Participants and beneficiaries of individual account plans affected by such blackout periods, and issuers of affected employer securities held by the plan.	Generally, at least 30 days but not more than 60 days advance notice. See ERISA § 101(i) and 29 CFR § 2520.101-3 for further information on the notice requirement.

Business Insurance

It is important to obtain business insurance for your company. Types of insurance that you may need include Property and Casualty, Errors and Omission (Service Company), Umbrella Coverage, Auto, Disability, Key Man Life, Business Interruption (disability), Electronic Data Processing (EDP) and Workman's Compensation.

I recommend that any contractor or business individual from whom you receive services that you ask them to provide you a copy of their proof of insurance. A surprisingly high number of small businesses do not have business insurance; and, even though the vendor may offer a warranty on their work that they perform, there is no guarantee that your business is covered if they go bankrupt or out of business.

Workman's Compensation Insurance

In the State of Georgia, businesses that employ three or more employees, including owners, have to maintain workman's compensation insurance. If you do not have workman's compensation insurance and an employee is injured on the job, you and your company could be liable. Workman's compensation insurance premiums are based on your company's payroll. A certain amount for each \$1,000 in payroll is charged for the premium. The premium varies from industry to industry based on the risk of employees being injured.

Expect a workman's compensation AUDIT annually to verify that the wages that you estimated for the year is on what your premiums were based. If you have fewer wages, then they owe you a refund; if more, then you owe more premiums.

Retirement Plans for the Business

Any business can establish a retirement plan for their employees and owners. A sole proprietor can establish a Self-Employed Pension Plan (SEP) and contribute up to 25% of profits from the business into the plan for himself and 25% for employees each year. Incorporated businesses can establish a SIMPLE or a 401(k) plan and contribute up to a total of \$41,000 annually per owner or employee. Our firm can help you determine how to maximize the contribution for owners and minimize or exclude employees when possible. There are many rules to retirement plans that have high penalties if you don't comply with them. Retirement Plans are also one of the best 'after the fact' tax planning tools you can have. You can wait to fund the retirement plan until you file your company tax return. The amount can vary, depending on your goals for the year and the tax savings benefits.

There are many types of plans and there is not a cookie cutter answer on which one is best. Some plans cost more than others, but have higher limits or more exclusions for certain employees.

Records and Accounting

Debits and Credits

An accounting method is simply a set of rules covering when and how you report your income and expenses. You choose your method of accounting when you file your first income tax return. The two most commonly used accounting methods are cash method and an accrual method. Generally, you must use the same method from year to year, unless you get special permission from the IRS to change.

Cash Method

This is the accounting method used by most due to its simplicity, and it may be appropriate for your small business. Generally, if you keep an inventory, you cannot use the cash method. However, if

average annual gross receipts are \$1 million or less, you may be able to use the cash method and keep an inventory. Determining your gross income with the cash method is merely a matter of adding up the cash, checks, and fair market value of property and services you receive during the year. Using this method, your income for the year includes all checks you receive, regardless of when you cash the checks or withdraw the money. You cannot avoid paying tax by not depositing checks or credits card slips.

Accrual Method

This method of accounting is essentially the opposite of the cash method. Its main purpose is to match income with the expenses incurred to produce that income. If you maintain an inventory in your business, you must generally use an accrual method for purchases and sales. See the exception explained previously under cash method.

Under the accrual method, income is reported in the year you have a right to receive it, even if you received the income in a different year. An accrual method calls for you to report income for the year when you perform a service for a customer. It does not pay you until the following year. Similarly, you generally deduct your business expenses in the year you become liable for them, regardless of when you actually paid them.

Overview of QuickBooks Pro. The most widely used accounting software for small businesses.

Intuit's QuickBooks Pro is the most widely used and supported small business accounting system in today's market. Its screens are simple to understand and easy to use. You can keep track of your accounting transactions on a day-to-day basis with confidence and the knowledge that Forrestall, Savage, Galeano & Li, CPA, L.L.C., is there for your needs. Our staff is certified by Intuit as QuickBooks Pro Certified Advisors. We help our clients by going to your site monthly to review their accounting records, make corrections and suggestions where

needed. This gives you the piece of mind that your accounting records are accurate and up-to-date so that you can better manage your business. We also offer training by our certified staff if you, or one of your staff, needs help in learning the program.

We additionally recommend that you take a look into PeachTree Accounting Software as well. Both are equally as good; and depending on your needs, we can help you choose which software is best for you.

You should keep in mind that these software programs are the beginning, or entry level, accounting software programs. For the price you pay, you will get most of what you could need. If you still need a bigger, faster, or better software, we can give you advice and help with the setup in the mid-level software market. Prices increase a lot from the entry level (entry runs from the \$400 to \$1,200 range, and the mid-range starts around \$7,500 up to \$45,000.)

We do not resell any software. We offer consulting services relating to the accounting software programs and charge by the hour with a retainer in most cases. Our CPA firm offers assistance in setting up the chart of accounts, payroll, accounts payable, accounts receivable, inventory, and bank accounts for you.

In any and all software that you use for your business, we strongly recommend that you purchase a new copy for your use. Software manufacturing companies are getting much better at being able to track when someone is illegally using software.

Controller for Hire

The partners of Forrestall, Savage, Galeano & Li, CPA, L.L.C., realized that our firm can best help their clients by providing a high level of accounting, and tax and business services that are flexible for each client at the price that meets their budget. Controller for Hire is our solution.

Clients of the Firm request and receive accounting, tax, QuickBooks, and business services at the hourly rate of the individual performing the service. The Client determines if the work is to be performed at

their location or at our office, and how often the services are performed (weekly, monthly, quarterly, as needed, or annually). There is no contract; you pay for services as you receive them in a monthly invoice.

Most of our clients operate their business on QuickBooks and many have a receptionist or internal accountant prepare the daily information and records. Our senior Accountants and CPA's go to the clients' site to provide a high level review and corrections to these records; the same work that a Controller would provide. We will function as your Controller when you need one, allowing your business to benefit from our training, knowledge and experience; but only when you need it.

What are the IRS Definitions of a Business Deduction?

The most common questions about business deductions relate to business use of a car, home office deductions and expenses, and travel and entertainment (to include meals) expenses. The IRS defines a business deduction as an expense that is ordinary and necessary. (This is pretty hard to nail down.) The deductibility is determined based on the facts and circumstances in a case by case basis. I have used the rule of thumb that if you can draw a correlation between you spending money on this good, service, or product, and that service, good, or product results in increasing your sales, which in turn can increase your profit and, thus, your TAXES; then you MAY be good to deduct it. If you can not pass my rule of thumb test, then you are probably out of luck. Remember, this is America and you can deduct everything that you want (the choice is up to you); however, the IRS may ask you to spend some time in Prison for Tax Evasion. It is all about the choices you make.

Common Items Small Business Deduct

- Cell phone(s)
- Business car or truck (either mileage or actual cost plus depreciation)
- Retirement Plan Contributions
- Office desk and office supplies
- Computers
- Insurance (Car, Workman's comp, Health insurance, General business insurance)
- Licenses (Annual filing with Sec of State, Professional licenses, County business license)
- Dues-professional or club dues (Non Profit Clubs)
- Other medical costs paid for employees
- Computer software and updates
- Amounts paid to legal, accounting, consulting
- Interest on loans used to operate business
- Meals for business purpose (50%)
- Child care cost for employees or owners
- Entertainment-(50%)-tickets to sporting events, golf, and other events that have business purpose.
- Rent(s) or leases on equipment or autos
- W2 wages and consulting (1099) paid to contractors
- Advertising
- Bank service charges
- Postage
- Lodging-hotel cost and travel cost
- Cost of items or inventory sold-if you sell items then you need to provide the beginning and ending inventory levels for each year
- Contributions to charity paid by company
- Improvements to facilities or expansion of operations cost
- Rule of Thumb-**needs to be "ordinary and necessary"**-can you draw a reasonable conclusion that by you spending \$\$ on this item, event, or service; that this could make you more money, which would result in

more income, which would result in more taxes paid to the IRS.

Other things that CPAs need to know that are not deductible

- Health and disability insurance
- Club dues-Golf Club, Country Club, Yacht Club
- Payments to the IRS or State Dept of Rev (Other than payroll tax deposits)
- Money that the owners loaned to the company or loans that were paid to the company
- Penalties Paid

Car Expenses

To take a business deduction for the use of your car, you must determine whether the use was business or personal. If the answer is personal, no deduction is allowed. Personal use includes commuting, driving from your home to your regular place of work. A deduction may be allowed if you have multiple jobs or businesses. Driving from your home to "business one" directly to "business two" is deductible. Also, you are usually allowed to deduct transportation costs for going from your home to a temporary workplace regardless of the distance.

Deductible car expenses can include the cost of 1) traveling from one workplace to another, 2) making business trips to visit customers or attend business meetings away from your regular workplace, or 3) going to a temporary workplace.

To claim the deduction, you must have adequate records such as a written travel log with complete and accurate mileage records for each business use of your car. If you are unable to produce a clear and accurate business mileage record, the IRS may have no choice but to disallow the deduction.

There are two methods for claiming business car expenses: actual expenses or the standard mileage rate (**NOT BOTH**).

Actual Expenses

You can add your entire car operating expenses for the year, including gas, oil, tires, repairs, license fees, lease payments, registration fees, garage rental, insurance, and depreciation. Then deduct the percentage of the total that was for business, based on your mileage records of business and personal travel. Deductions for business parking and tolls do not have to be divided.

Standard Mileage Rate

Beginning Jan. 1, 2005, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) are:

- 40.5 cents a mile for all business miles driven, up from 37.5 cents a mile in 2004;
- 15 cents a mile when computing deductible medical or moving expenses, up from 14 cents a mile in 2004; and
- 14 cents a mile when giving services to a charitable organization.

A taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS), after claiming a Section 179 deduction for that vehicle, for any vehicle used for hire, or for more than four vehicles used simultaneously. IRS Revenue Procedure 2004-64 contains additional information on these standard mileage rates.

If you use the standard mileage rate, you cannot claim your actual operating expenses, but you can claim your business parking and tolls.

Travel Expenses

Travel expenses are your “ordinary and necessary” expenses while you are traveling away from home on business. The tax law requires that you show that your trip away from home was primarily for business.

Keep whatever documents you can gather at the time of the trip to prove where

you went, why you were there, how long you stayed, and how much you spent. If your travel includes some business and some personal aspects, be sure to keep clear records showing exactly how much is related to business. Keep the following:

Lodging Receipts

These should show where you were, how long you were there, and charges. Also keep records for cleaning and laundry, telephone charges, tips and other charges not shown separately.

Transportation Receipts

These include airplane, train, or bus ticket stubs, travel agency receipts, rental car, or taxi receipts, etc., all showing amounts, dates, and destinations involved.



Meal Receipts

Meal expenses are deductible only if your trip is overnight or long enough that you need to stop for sleep or rest to properly perform your duties. The amount of the meal expenses must be substantiated, but instead of keeping records of the actual cost of your meal expenses, you can generally use a standard meal allowance ranging from \$30 to \$51 in 2004, depending on where and when you travel. (Go to the IRS web site and search for 'per diem' rates, IRS Pub 1542). You can also deduct meal expenses when they are ordinary and necessary business expenses in an area less than 50 miles away.

Whether you use the standard meal allowance or actual expenses, you generally can only claim a deduction of 50 percent of the unreimbursed cost of your meals while you are traveling, even if you are dining with business associates. Taxes and tips that are part of the cost are also subject to the 50 percent limit.

Home Expenses

Using part of your home for business is another example of something used for both business and personal purposes. You must meet specific tests before you can claim a deduction for the business use of your home. Among other things, you must show that the area you use for business is never used for personal purposes.

To figure the part of your home operating expenses that are for business use, you must figure the percentage of your home used for business. To find the business percentage, compare the size of the business part of your home to your whole home.

Independent Contractors

Have all independent contractors complete the IRS Form W-9. For all contractors that are not incorporated and that you pay \$600 or more annually, you are required to issue them an IRS Form 1099-MISC by January 31.

If the contractor does not want to give

you his Federal ID number (EIN), it is likely that they do not wish to report this income. If you do not file a 1099-MISC on contractors that you pay more than \$600 and are not incorporated, you will lose the amount that you did pay them as a deduction if you are audited by the IRS. What you paid them will become income to you, and you will have to pay income taxes on this amount instead of them paying tax on this amount.

What do you need to keep records of and for how long

You should keep records and receipts for **at least three** calendar years. If you file your income tax returns on time and do not have any fraudulent transactions in your tax returns, then the IRS can only audit up to the last three years of income tax returns before the statute of limitations runs out. It is always best to file on time to start the clock running.

If you are provided a copy of your return from your tax preparer, they are not required to keep copies; so protect your copies. The supporting schedules that CPA's, attorneys and other professionals produce in performing their services for you are generally, the proprietary property of the provider; they are not yours to see or keep. (Try to get your Doctor to give you all of the notes about you in your file.) We recommend keeping supporting documents (receipts, logs, and accounting records), relating to each year that remain potentially subject to IRS review and audit. If you are unsure of what to keep, it is better to err on the side of caution and keep more than you need. Bank statements, canceled checks, business credit card statements, loan documents, cash receipts, and all employee documents should be kept for at least three years.

IRS and other Agencies Audits

Representation by a CPA

The IRS accepts most taxpayers' returns as filed. If the IRS inquired about your return or selects it for examination, it does not suggest that you are dishonest. The inquiry or examination may or may not result in more tax. Your case may be closed without change, or you may receive a refund.

If you receive a notice from the IRS and you agree with the information, then take the appropriate course of action. Keep a copy of the notice and include it with the information to have your CPA prepare your income tax return. If you do not agree with the notice, then contact our CPA firm; we will advise you on the best course of action to take and why. If you are selected for an audit, do not contact the IRS; contact a partner in our Firm, and we will correctly guide and assist you in preparing for the audit. If you contact the IRS yourself, you may be providing unnecessary information that may not benefit you.

The cost of representation is based on the actual hours spent representing you. This will vary for each business based on the amount and complexity of your accounting and the activity involved. It is common for a CPA to spend at least 40 hours for the representation. Our firm will provide you a range of prices prior to the engagement.

Only CPAs, Attorneys, and Enrolled Agents can represent you and your business before the IRS. Experience of your CPA is crucial to the efficiency and effectiveness of your audit.

Offer in Compromise and Payment Plans to the IRS

In 95% of the time, it is my opinion that if you owe lots of money to the IRS, more than you can pay in one year; then you should submit a request to pay the debt to them, with interest, over time (usually only a very few years). If you do make an agreement to make monthly payments, **DO NOT MISS APAYMENT!**

You may have seen on TV, ads from companies to get your liability reduced to pennies on the dollars on what you owe. They are talking about an offer in compromise. Since the new IRS commissioner came in office in 2003, the number of OIC's that have been approved are very, very small. The application is expensive. Our time to represent you to file it and defend the application is expensive, and the interest and penalty will likely continue to compound. You must show the IRS that you do not have the ability to pay them to get a reduction (which could mean to sell your home, investments, cars, leverage your paychecks above what they believe you need to live, etc.), not just the fact that you don't want to pay that much. Filing an OIC is an option and it can benefit you greatly if the facts and circumstances work out correctly. We have had a few of these results in very successful outcomes for our clients recently, but everyone is different.

Benefits

Owner and Employee Benefits

You must include the fair value of fringe benefits in the W2 of an employee, Form K-1 for a partner in a partnership (they don't get W2's), or in a 1099 for a contractor. The fair market value (FMV) of a fringe benefit is the amount an employee would have to pay a third party in an arm's-length transaction to buy or lease the benefit. Determine this amount on the basis of all the facts and circumstances.



Cafeteria Plans

A cafeteria plan, including a flexible spending arrangement, is a written plan that allows your employees to choose between receiving cash or taxable benefits instead of certain qualified benefits for which the law provides an exclusion from wages. If an employee chooses to receive a qualified benefit under the plan, the fact that the employee could have received cash or a taxable benefit instead, will not make the qualified benefit taxable.

Generally, a cafeteria plan does not include any plan that offers a benefit that defers pay. However, a cafeteria plan can include a qualified 401(k) plan as a benefit. Also, certain life insurance plans maintained by educational institutions can be offered as a benefit even though they defer pay.

Please contact us if you are interested in setting up a cafeteria benefits plan or need more individualized advice.

Qualified benefits

Qualified benefits include the following benefits discussed in Section 2.

• Accident and health benefits (but not medical savings accounts or long-term care insurance).

- Adoption assistance
- Dependent care assistance
- Group-term life insurance coverage (including costs that cannot be excluded from wages).

Benefits not allowed. A cafeteria plan cannot include the items below (they are in almost all cases, not a taxable fringe benefit for staff or owners).

- Archer medical savings accounts (See *Accident and Health Benefits*.)
- Athletic facilities
- De minimis (minimal) benefit
- Educational assistance
- Employee discounts

- Lodging on your business premises
- Meals
- Moving expense reimbursements
- No-additional-cost services
- Transportation (commuting) benefits
- Tuition reduction
- Working condition benefits

It also cannot include scholarships or fellowships (discussed in Publication 970, *Tax Benefits for Education*).

Employee. For these plans, the following individuals are treated as employees.

- A current common-law employee (see Section 2 in Publication 15, (Circular E), for more information).
- A full-time life insurance agent who is a current statutory employee.
- A leased employee who has provided services to you on a substantially full-time basis for at least a year, if the services are performed under your primary direction or control.

Exception for S Corporation shareholders.

Do not treat a 2% shareholder of an S Corporation as an employee of the corporation for this purpose. A 2% shareholder for this purpose is someone who directly or indirectly owns (at any time during the year), more than 2% of the corporation's stock or stock with more than 2% of the voting power.

Plans that favor highly compensated employees.

If your plan favors highly compensated employees as to eligibility to participate, contributions, or benefits, you must include in their wages the value of taxable benefits they could have selected. A plan you maintain under a collective bargaining agreement does not favor highly

compensated employees.

A highly compensated employee for this purpose is any of the following employees.

1. An officer
2. A shareholder who owns more than 5% of the voting power or value of all classes of the employer's stock.
3. An employee who is highly compensated based on the facts and circumstances.
4. A spouse or dependent of a person described in (1), (2), or (3).

- A transit pass
- Qualified parking
- Mileage reimbursements
- (Notice that there is no Car Allowance here. Car Allowance is taxable to the employee as Wages.)

Plans that favor key employees.

If your plan favors key employees, you must include in their wages the value of taxable benefits they could have selected. A plan favors key employees if more than 25% of the total of the nontaxable benefits you provide for all employees under the plan go to key employees. However, a plan you maintain under a collective bargaining agreement does not favor key employees. A key employee during 2005, is generally an employee who is either of the following:

1. An officer having annual pay of more than \$135,000.
2. An employee who for 2005, was either of the following:
 - a. A 5% owner of your business
 - b. A 1% owner of your business whose annual pay was more than \$150,000



More information. For more information about cafeteria plans, see Section 125 of the Internal Revenue Code and its regulations.

Qualified Transportation Benefits

The following travel/auto benefits are the only benefits that are not includable as income for an employee:

A ride in a commuter highway vehicle between the employee's home and work place



Taxes

The most common reason that small businesses do not succeed is due to failure to file and pay Employee Payroll taxes and Sales and Use taxes. Ironically, these are controllable tasks. The correct set up of your accounting records and monitoring system will keep you informed and in compliance. A detailed listing of the potential dates that a business could have to report or pay taxes is found on the IRS Small Business calendar. You may also contact Forrestall, Savage, Galeano & Li, CPA, L.L.C., for a copy of the current year calendar.

Who to prepare your tax reports and returns

An attorney, accountant, or a Certified Public Accountant can each assist you in the preparation of your tax reports and returns. A CPA has the highest level of knowledge in accounting and taxation that is recognized as professionals by the Secretary of State. CPAs now must obtain a Master Degree in Accounting or Taxation, apprentice with another CPA for at least two years, and must pass a 16 hour national examination on accounting, business law, ethics, auditing and taxation.

You will find that the price of the preparation of your return by a CPA and other non-certified accountants may not vary much; however, the level of experience, resources and certifications will vary much more than the price varies. If you have a bad tooth that needs to come out, you can use pliers to pull the tooth and it would be out of your mouth and not cost much; but I would suggest that you actually see a professional.

Our CPA firm will assist you in reducing your audit risk from the IRS when filing your tax returns by helping you to take full advantage of potential tax saving techniques while not being aggressive enough to draw attention to your business. If you do get audited, make sure that your tax preparer will represent you and that they have experience in IRS representations.

Sales and Use Tax in Georgia

Entities subject to sales and use tax are retailers, resellers, food and beverage establishments, dealers, contractors, and lessor of tangible personal property who sell or lease to the end consumer. Items subject to sales tax are clothing, household goods, furniture, toys, automobiles, electronics, etc. Groceries are not subject to Georgia's State Tax of 4%; however, grocery purchases are subject to the local option sales tax rate imposed by your county. Labor charged as a separate line item on an invoice is NOT subject to sales tax, but freight or shipping charges are taxable. The total sales reported on your sales and use tax return should match your total sales for your reporting period.

Returns are typically due on a monthly basis unless exceptions are met to file either quarterly or annually. The due dates for filing sales tax returns is the first day of the month for the previous reporting period, and are considered late after the 20th. Discounts (vendors' compensation) are available ONLY for timely filed returns and are charged 3% (.03) of the first \$3000 (\$90.00) and ½% (.005) of the remainder of sales and use tax due. Penalties are imposed on late-filed returns at the rate of 5% or \$5.00 per month. Interest is also charged on late-filed returns at the rate of 1% per month. Georgia law allows payment of taxes via electronic funds transfer (EFT) and is available to any entity subject to sales and use tax.

Form CRF-002 State Tax Registration Application and instructions for completing are available via the internet at <http://www.etax.dor.ga.gov/ctr/formsreg.shtml> or by contracting Georgia Department of Revenue at 404-417-4490.

NEXUS (Doing business in other states)

If you conduct business activities in another state, have a business office or location in another state, have employees or sales persons soliciting sales in another state, then most likely your business is subject to Nexus.

Your business will not have to pay additional taxes for Nexus, but will divide the amount of state taxes for Georgia and other states in which you are doing business. If you do not notify the other state that you are doing business there and file the appropriate tax returns and reports, and if that state audits you, then you can be subject to back taxes with penalties and interest. Georgia will not likely give you credit for taxes paid to these states.

Before hiring employees or performing work in another state, contact your CPA to find out if filing for Nexus is necessary.

Rental Property

There are several factors that you need to consider when you own rental property. You should ensure that you have the correct business insurance. Determine if you will be a passive (most likely), or active owner. Then determine if you should have a Corporation, Partnership, LLC, or personally own the property.

There is no hard and fast rule on who should own the property. This is determined by the facts and circumstances of each situation. Having the property owned by a separate entity may be good to segregate assets (other property or even your own home or business), from the event of legal action. Placing the asset into a Corporation will most likely eliminate the ultimate owner's ability to get to use the low capital gain tax rate if you sell the property, but a Corporation may be a good idea for Estate Tax Planning for heirs.

1031 Exchange

When you go to sell property, you can 'trade' this piece of land for another piece and defer the tax (not eliminate it, but defer it until you finally sell land and don't fully replace it). This is the same for trading cars, land, or horses. The IRS began this 'loop hole' with the horse trade and wanted owners of horses to be able to trade horses without causing taxes to be owed, and these have been expanded to other property.

This is a very complex area. If you

don't do this 100% right from start to finish, it will not work and you will pay the tax. **Please call us for help before you sign the agreement to sell you property or make an offer to buy some other property.**

In general, you have 45 days from closing on the property you are selling to identify, in writing to your 1031 representative, replacement property and 180 days from closing to close on and own one of these properties. If you ever, as seller, get the ability or actually do receive cash, you will pay tax at least on that cash and probably more. Normally, the only way to defer all of the gain is to buy a replacement property that cost more money than what you sold your property for and keep the same amount of debt or more on the new property.

What is Personal Property Taxes, and Why do you file them?

How do you calculate?

Personal Property Taxes are yet one more tax that businesses pay annually. These are taxes that you will pay to the county that you live in. These taxes are under that same type of tax as Real Estate tax on your home. Each business must report all of the personal property (tangible items, equipment, furniture, computers, etc., that are not land or building items), in a tax return. Then, the county will pay tax on these amounts. If you consider how much \$1,000 of your home value equals the tax you pay, then you may use the same method to estimate the amount of taxes you may be facing. If you don't file a return, then the statute of limitations never starts. However, if the county finds you (and they really do send agents out looking for businesses not registered each year), you will owe tax on all years missed.

EFTPS What is it and is it required for Businesses?

EFTPS is the Electronic Federal Tax Payment System developed by the IRS to enable taxpayers to pay their federal taxes electronically on the web (www.eftps.gov),

or to use the phone to initiate payments. It is very secure and required for many companies. You are automatically partially registered by the IRS when you apply for an EIN number. The system allows you to schedule (even a week ahead of time and cancel or delay it with ease), tax payments that must be made at least one day prior to the tax due date. You place a limit on the maximum amount that you can take out of your account. You also receive the ability to get a full payment history of your payments which will greatly help you if you ever get a tax notice from the IRS.

Business Advisors

CPA/Banker/Attorney/Computer Consultant

The most important step to take in operating your business is the selection of your business advisors. These should include your CPA, your banker, your computer consultant, and your attorney.

Choosing your advisor should include questions about their professional experience in your business industry, professional certifications, location of their office and convenience, the understanding of technology for your accounting system, and equally important is their prices.

With professional services, remember that you get and should get what you are paying for. There may be competitors to these advisors who are less in cost but be weary as to why. Ask for references from clients that you can contact.

It is best to ask for the hourly rate sheet of staff for a firm; as all work performed for you, including phone conversations, will be billed to you. It is normal to pay additional charges for notices from the IRS as the CPA does not know if you will get a notice and this work is not included in the price of preparing your work. Sometimes the fees to respond and resolve a notice may equal or exceed the fees to prepare the return to which the notice relates. Both services are related to time expended, and your CPA should be able to

help provide you an estimation of fees and expectations.

Your CPA should offer tax planning for you at mid-summer and at the end of the fall season. Tax planning helps to give you peace of mind to avoid tax penalties and unwanted interest, and gives you suggestions on what you may be able to do before the year is over and it is too late.

Our CPA Firm will proudly provide you prices of our services, references from several clients, individual biographies, and overview of our Firm's experiences.

List of Publications and Web Sites for Small Businesses

Here is a listing of several IRS Publications and websites that will be useful to operating your small business.

IRS Publications

Pub 15	Circular E, Employer's Tax Guide
Pub 15-B	Employer's Tax Guide to Fringe Benefits
Pub 463	Travel, Entertainment, Gift and Car Expenses
Pub 533	Self-Employment Tax
Pub 535	Business Expenses
Pub 560	Retirement Plans for Small Business
Pub 583	Starting a Business and Keeping Records
Pub 587	Business Use of Your Home
Pub 1542	Per Diem Rates

Web Sites

Secretary of State of GA www.sos.ga.us.gov
IRS www.IRS.org
SBA www.sba.org
Department of Labor www.dol.gov
Forrestall & Co., CPA, LLC
www.4estall.com



PARTNERS

FORRESTALL & SAVAGE, GALEANO & LI, CPA, L.L.C.

JEFF FORRESTALL, CPA, CITP, DABFA

Jeff became a partner in the firm with Forrestall & Co., CPA, L.L.C., in January, 1997. Jeff interned with the firm in 1993. He joined the firm as a staff accountant in 1994, after graduation from Georgia Southern University as a Distinguished Military Graduate. His initial focus was on performing financial statement audits and small business accounting. Presently, he is the managing partner of the firm, responsible for the operations of two locations.

Jeff has attended specialized education classes in the topics of financial auditing and assurances, small business accounting, 401(k) retirement plan administration and planning, corporate and real estate taxation, and accounting technology. During the years since joining Forrestall & Co., CPA, L.L.C., Jeff has consulted and advised hundreds of businesses in dozens of industries. During 1999, Jeff was the Project Manager of a Y2K conversion and an internal auditing review project for a Fortune 200 Company.

In 2000, Jeff received his Diplomat of the American Board of Forensic Accountants (DABFA) designation from the American Board of Forensic Examiners. This designation was awarded based on experience in forensic and fraud examinations and litigation support to attorneys. In 2001, Jeff received his Certified Information Technology Professional (CITP) designation from the American Institute of Certified Public Accountants (AICPA). Currently, there are less than 400 Certified Public Accountants (CPA) with this designation. Jeff was recognized in 2002, by the Georgia Society of Certified Public Accountants (GSCPA), as one of the top 30 CPA's under the age of 40 in the State of Georgia. Jeff received the designation of Associated Professional Member of the American Society of Pension Professionals in 2000.

Jeff served in the U.S. Army during Operation Enduring Freedom, as a Commissioned Officer. He was assigned to the Current Operations Section for Army Headquarters as Senior Officer-in-Charge of data automation and historical operations. Jeff created and implemented several custom data base programs to facilitate operational management of units, soldiers, and materials used in military operations in the Middle East in the War on Terror.

Jeff is an active member of the Braselton Rotary Club. He has served on the Board of Directors for the Georgia Society of CPA's since 1997. He is the Vice Chair of the Information Technology Section, served on the Ethics Committee, and several task force groups for the Georgia Society of CPA's. He is an active member of the Gwinnett Chamber of Commerce. He is a member of the American Society of Pension Professionals and Actuaries, American College of Forensic Examiners, Association of Certified Fraud Examiners, Georgia Society of CPA's, and the American Institute of CPA's.

H. GLENN SAVAGE, CPA

Glenn began his career in public accounting in 1965, while attending the evening program at Georgia State University. While majoring in accounting and working toward a B.B.A. degree, he started work with a small Atlanta CPA firm by the name of Habif, Arogeti, and Wynne, now one of the largest local firms in the State of Georgia.

Upon finishing the requirements for his B.B.A., Glenn graduated in 1967. In 1968, he accepted a position on the audit staff of Coopers and Lybrand (now known as Price, Waterhouse, Coopers), where he remained until May of 1971. Glenn passed the November, 1970, Certified Public Accountants (CPA) exam and was awarded his CPA Certificate in April of 1977.

From 1971, until early 1974, Glenn served with the Defense Contract Audit

Agency; and with the U.S. Department of Labor, Program Review and Audit Division. After leaving government service, he returned to public accounting with a local CPA firm and remained there until forming his own firm in Lilburn, Georgia, in June, 1976; where he practiced until his recent merger with Forrestall & Co., CPA, L.L.C., of Buford, Georgia. Glenn has been a member of the American Institute of Certified Public Accountants (AICPA) and the Georgia Society of Certified Public Accountants (GSCPA), since 1968. He has attended continuing professional education courses sponsored by both organizations since the CPE standards were established. His firm has participated in the "Peer Review" program since it was established, and has received an unqualified opinion for each of the last four reporting periods.

Glenn served on the Board of Directors of the Gwinnett Chamber of Commerce, and was twice the President of the Gwinnett Chapter of the Georgia Society of Certified Public Accountants, receiving the Chapter President of the Year award for 1993. He has also served as Treasurer of the Vines Botanical Gardens Foundation since 1999.

JAVIER GALEANO, CPA, MBA, MSF

Javier became a partner in Forrestall & Co., CPA, L.L.C., in June, 2004. He originally joined the firm in the year 2000, after coming to the United States from his home country, Colombia. He specializes in financial statement audits, projection and development planning, small business consulting, individual and corporate income taxes, and international taxation.

Javier is an industrial engineer with a Masters Degree in finance. He graduated from the Universidad Del Norte in Colombia. He also has a Masters Degree in Business Administration (MBA), with concentration in Accounting, from Kennesaw State University. In 2003, he started working with the Hispanic community in Georgia. He has

been teaching accounting in Hispanic American Center for Economic Development (HACED), for Hispanic entrepreneurs. In addition, he is a SCORE counselor for small businesses in the Gwinnett Chamber of Commerce Score Office. Javier was recently recognized in 2004, by the Georgia Society of Certified Public Accountants (GSCPA), as one of the top 30 Certified Public Accountants (CPA) under the age of 40 in the State of Georgia.

Javier is an alumnus of the 2004 Leadership Gwinnett sponsored by the Gwinnett Chamber of Commerce. He is a member of the Georgia Society of CPA's and the American Institute of Certified Public Accountants (AICPA). Javier is fluent in Spanish and English.

ROGER LI, CPA

Roger became a partner with Forrestall & Co., CPA, L.L.C., in August, 2005. He interned with the firm in 1997, and joined as a staff accountant from 1998 to 2000. Roger's initial focus was performing financial statement audits and small business accounting solutions.

Before joining Forrestall & Co., as a partner, Roger was a tax manager with Habif, Arogeti & Wynne, L.L.P., the largest independent accounting firm in Georgia. He worked with small and mid-size corporate and individual clients on tax planning and tax compliance, specializing in state and local tax and international tax. He also consulted and advised businesses in claiming various Federal and State tax credits.

Roger received his Bachelor of Arts in Public Accounting from Marietta College in Ohio, and a Masters in Taxation from Georgia State University. He also attended the Institute of International Relations in Beijing, China, where he majored in International Economics. He is fluent in English and Chinese.

He scored sixth highest among nearly 3,000

candidates in November, 1998, National Uniform Certified Public Accountants Exams in the State of Ohio.

Roger participates in a variety of professional and civic associations including:

- The American Institute of Certified Public Accountants (AICPA)
- The Georgia Society of Certified Public Accountants (GSCPA)
- Chinese Business Association of Atlanta, where he serves as Treasurer and is on the Board of Directors

JOHN FORRESTALL, CPA

John founded Forrestall & Co., CPA, L.L.C., in October, 1978. A graduate of the University of Florida, he began his career in Florida, where he worked in public accounting, private industry, and in government for the State of Florida. John was the first Director of Audits for the Florida Department of Revenue Corporation Income Tax Division. He also spent time working in the private sector serving as Corporate Controller for a multi-location electrical contractor, Chief Financial Officer of a corporation that operated several regional plants and as Chief Financial Officer for a motor home dealership in central Florida.

John is a Certified Public Accountant (CPA), licensed in Florida, Georgia, and

Alabama. He has attended professional education courses sponsored by the American Institute of Certified Public Accountants (AICPA), including seven sessions of National Tax Education Program, four sessions of the Advanced Estate Planning Conference, many conferences on Like-kind Exchanges, and numerous courses on accounting and auditing.

John has served on the Board of Directors of the Georgia Society of Certified Public Accountants (GSCPA), and is currently Chair of Trustees of the Insurance Trust of the Georgia Society of CPA's. He is a past Lt. Governor of the 19th Division of Kiwanis Club of Georgia and past President of the North Gwinnett Kiwanis Club. He is active in his Church, serving as Finance Committee Chair, along with being an active member of the Gwinnett Chamber of Commerce, having served on the Ambassadors Council and the International Business Committee.



Check List for Start up of Business

New Business Checklist

Completed	Task	Due Date/Frequency
	Contact Forrestall, Savage, Galeano & Li, CPA, L.L.C.	Now
	Choose Entity Type (Incorporate or Not)-call CPA	Prior to other steps
	Obtain a Federal ID Number (EIN)-call CPA or go to www.IRS.gov	Prior to opening checking account
	Open Checking Account and choose your Banker	As soon as possible after applying for Federal EIN and receive Sec of State Certificates.
	File S Corp Election (if necessary)-call CPA	After incorporating, but before 75 days for starting corporation or acquiring assets
	Obtain City/County Business License	Prior to conducting business, Go to City Hall if in City Limits
	Obtain a Georgia Sales & Use Tax number (if applicable)-call CPA	Prior to selling your products
	Obtain a Georgia Dept of Labor and State Income Tax Withholding numbers-call CPA	Prior to first payroll period
	Determine need for QuickBooks Pro-call CPA	As soon as possible
	Register Trade Name (d/b/a) (if applicable)	Prior to conducting business under a name different than your business legal name
	Obtain Business Insurance-ask about what types you need	As soon as possible
	Obtain Workman's Compensation Insurance	As soon as possible from having employees
	Obtain I.N.S. Form I-9 and have Employees complete- www.IRS.gov	When hiring employees
	Obtain Form W-4/G-4 and have Employees complete	When hiring employees
	Consult with CPA about Contractor vs. Employee Status. Can fill out SS-8 and ask IRS to tell you.	Prior to hiring employees or contracting with contractors (if you are unsure if they are employees or contractors)
	Contact Forrestall, Savage, Galeano & Li, CPA, L.L.C., for QuickBooks Pro training and set up assistance	Once computer and QuickBooks Pro is setup
	Determine which services from Forrestall, Savage, Galeano & Li, CPA, L.L.C., will best help your business immediately and in the future	Prior to entering accounting information into your accounting software