



**Sushil Kumar, CPA, MBA**

**December 2011**

# STRAIGHT TALK ABOUT SMALL BUSINESS SUCCESS

The newsletter designed to keep you on course to build a successful small business



**F**irst and foremost, on behalf of my team and myself, I want to wish you and your family a very safe and enjoyable holiday season. Can you believe it is the final month of the year and the holidays are right around the corner? It feels as if this year went by at an extremely rapid pace.

**W**ith the end of the tax year just around the corner, over the next two issues we'll take a close look at some of the major business expenses you may be able to claim as tax deductions. There are many everyday costs that business owners miss out on claiming each year, which could make a big difference to the amount of tax paid to the IRS.

*Sushil Kumar, CPA*

## Business Deductions You Can't Afford to Forget

**N**o one likes paying tax, let alone paying more than we have to. This month and next month we'll take a look at some important business tax deductions that you should keep in mind in order to keep your business's taxable profit as low as possible, thereby minimizing the amount of tax you have to pay.

### Auto Expenses

The cost of running a vehicle can quickly skyrocket. If you use your car for business purposes, you are permitted to deduct some of the running and maintenance costs incurred throughout the year. However, claiming automotive costs is not entirely straightforward, and you have two methods to choose from:

### Actual Expenses Method

Under this method you are required to keep receipts and/or other documentation to support all business-related expenses, and then claim a deduction for these costs.

You are entitled to claim gas, oil, repairs, tires, insurance, registration fees, licenses, and depreciation (or lease payments), adjusted to reflect the business-related usage.

### Standard Mileage Rate Method

Rather than keeping track of all of this paperwork, the IRS entitles you to deduct a specified amount, the standard mileage rate, per business mile driven, in addition to any business-related tolls and parking costs.

For the first six months of 2011 this rate was 51 cents per business mile, but was increased to 55.5 cents per business mile from July 1, 2011.

Obviously, you can only claim a deduction – under either

method – in relation to the business miles travelled, and therefore you'll need to keep an accurate record of personal/business usage.



It certainly pays to calculate what your deduction would be under each method and utilize the method that gives you the biggest deduction. However, it's important to realize that if you want to choose the Standard Mileage Rate, you must have used this method in the very first year for which you started claiming business use, and if you've claimed either accelerated depreciation or taken a Section 179 deduction for this auto, you're required to use the Actual Expenses Method.

Other car expenses for parking fees and tolls attributable to business use are separately deductible, whether you use the standard mileage rate or actual expenses.

### Business Establishment Costs

Starting a business is not cheap; it can seem that the expenses are never-ending. However, keep in mind that any costs incurred before you actually commence operations are classified as capital costs which are treated differently than expenses incurred after you've started operations.

In the first year of business the IRS allows you to claim a deduction for up to \$5,000 of capital expenses incurred in establishing your business. The deduction for any excess is required to be apportioned over the following fifteen years.

The \$5,000 deductible amount is reduced by the amount by which startup or organizational expenditures exceed \$50,000; in other words, no first-year deduction (beyond the amount of amortization for the first year) is allowed

*Continued on page 2*

## Deductions... Continued from page 1

if startup expenses equal or exceed \$55,000.

While many businesses suffer losses over the first few years, some do begin making a profit from the first year. If this is the case, it might be beneficial to put off some of the business establishment expenses until after you've commenced business, enabling you to claim them immediately. If you're going to be taking losses, spreading the deduction over fifteen years makes more sense.

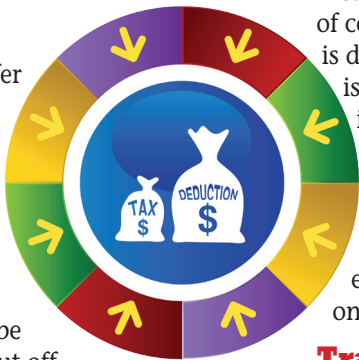
### Legal Fees, Professional Fees, and Books

Fees that you pay to lawyers, accountants or tax professionals, and consultants in general are permitted to be deducted in the year they are incurred, provided that if these costs relate to future years they must be spread over the applicable period.

Business-related books and publications are also deductible in the year they are incurred.

### Bad Debts

Bad debts are unfortunately a cost of doing business however, you are entitled to claim a deduction only for the cost of goods sold but not paid for. If clients refuse to pay for services rendered, there is no deduction available if the income had not been recognized.



## Entertainment

You may find yourself paying for meals/entertainment in the course of conducting business. If the cost is directly related to business, or is associated with business and is incurred immediately prior or subsequent to the business discussion, then you are permitted to claim a deduction of 50% of the cost. To keep track of this type of expense, it's prudent to note details on the receipt.

## Travel Costs

For many people, travel will be a necessity in doing business. These costs, such as plane and taxi fares, lodging, meals, telephone and facsimile, shipping, and tips are fully deductible provided they are incurred for business purposes. If your travel is for both business and personal reasons, as long as the main reason of the trip is business-related, you can still claim the expense (provided, of course, that if your family tags along for the trip, their portion of the expenses are excluded from the deduction).

## Interest

Many business owners have the need to borrow funds to run their business. Any interest or bank fees charged on these borrowings are deductible. If you obtain a personal loan, be careful to keep accurate records proving the reason that you borrowed the funds.

Next month we'll look at additional business deductions that you should keep in mind as well as some of the smaller, routine costs of doing business that are often easily forgotten.

## SUCCESS SECRET: MEASURE YOUR HUSTLE

As coach of the New York Knicks, coach Pat Riley wanted to fire up his team. The team kept the usual stats on scoring, assists, rebounds, and the like, but one year Riley decided to begin measuring hustle: how many rebounds players went for even if they didn't succeed; how many times a player would make an extra effort to snatch up a loose basketball; how often someone would make a grab in a steal attempt.

Riley posted his "Hustle Stats" in the Knicks' locker room after every game. Without any additional comment on his part, so the story goes, Riley's players became a top-level team.

Focus on results, yes, but keep an eye on your level of effort to reach the top.



### Do You Have A Tough Accounting / Tax Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I'm always looking to answer pressing questions you might have relating to small business.

If you have a question, tip or idea, please call me at (718) 261-2090 or email me at [Sushil@bestcpasolutions.com](mailto:Sushil@bestcpasolutions.com). Perhaps I'll feature you in a future issue!



### Business Question/Tip:

**Q:** My wife is a full-time student with less than \$5,000 of taxable income but significant assets in stocks and mutual funds. I am the sole shareholder and owner of my S-Corporation with \$150,000 in income. When filing for student loans, my wife was advised to file as "Married filing separately" to improve her chances for a student loan. The standard student loan application requires disclosure of spousal income and assets. Should we file separately rather than jointly, considering the many drawbacks to this filing status?

**A:** The rules require that you disclose the assets and income of both spouses. There may be tax benefits to filing separately, such as her income being tax-free because it is so small, but yours would be subject to higher tax rates because the threshold for each tax bracket is halved. The only way to know for sure is to prepare returns both ways and compare the tax bills.



## THREE JOKE ABOUT DOCTORS

I don't know what it is, doc," the young man said. "I just don't feel good."

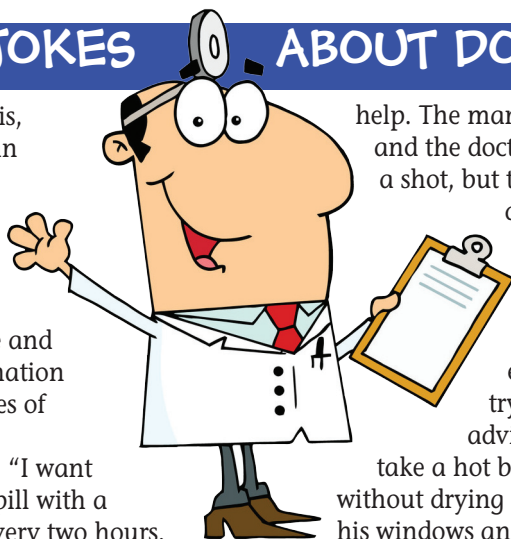
The doctor examined him and ran some tests. Then he talked to her nurse and came into the examination room with three bottles of different-colored pills.

"OK," the doctor said. "I want you to take one blue pill with a large glass of water every two hours. I want you to take a green pill with a large glass of water every three hours. Then take one of the yellow pills, with a large glass of water, every four hours."

"Geez, that's a lot of pills," the patient said. "What's the matter with me?"

"You're not drinking enough water."

A man went to the doctor with a miserable cold. The physician prescribed some medicine, but it didn't



help. The man went back, and the doctor gave him a shot, but that didn't do any good either.

He called the doctor and asked what else he could try. The doctor advised him to take a hot bath, then without drying off, to open all his windows and stand in the draft.

"But if I do that, I'll get pneumonia."

"Yeah," the doctor sighed, "but I can cure pneumonia."

An emergency room doctor came in to examine his first patient of the day, a woman who'd been in a minor traffic accident. "Well, what brought you here today?" he asked cheerfully. The woman, in pain, glared at him.

"What do you think? An ambulance!"



## Client of the Month

**Congratulations to Alf Baez of UR Imagination Inc. as December's Client of the Month.**

Mr. Baez has been a client of my firm for 4 years and his company provides software and computer consulting for Fortune 500 companies in both NY City and NY State.

To learn more visit his website at [www.urimagination.com](http://www.urimagination.com).

## Quotes of the Month

*Creativity is just connecting things.*

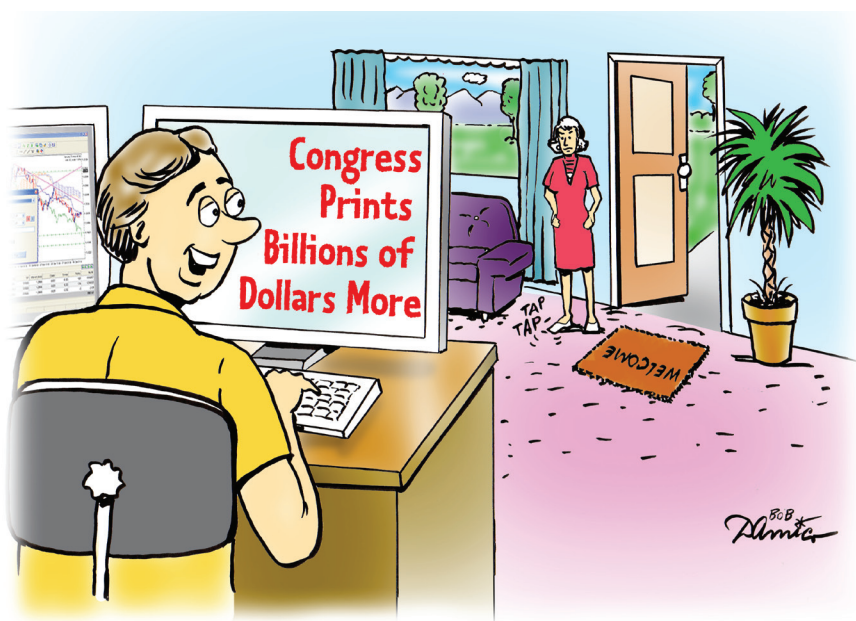
—Steve Jobs

*When you do the common things in life in an uncommon way, you will command the attention of the world.*

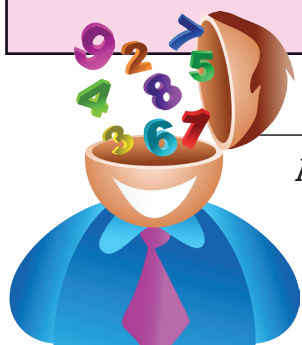
—George Washington Carver

*Leaders, followers, and goals make up the three equally necessary supports for leadership.* —Gary Wills

*If you don't wake up with something in your stomach every day that makes you think, "I want to make this movie," it'll never get made.* —Sherry Lansing



*"Let's delay our holiday shopping a bit... maybe Congress will spread some of that stimulus wealth OUR way!"*



## Are You In Need of a QUALIFIED TAX PRO?

If you are not my client and would like to explore whether we might be a good fit, please contact me. As a qualified tax professional, I not only know all the rules, but can also help you deal with the IRS and help you decide how far to push a dispute.

## Decisions, decisions: How to delegate them effectively

Delegation isn't always about assigning specific tasks. Sometimes it's about delegating decisions, which can make managers and employees alike nervous. Ease the tension by clarifying exactly what you expect. Decision-making assignments usually fit into one of these three boxes:

- **RECOMMENDATION.** Some decisions you have to make yourself, but you can assign an employee to make a recommendation. Ask the employee to research the options and present his or her opinion as to which would work best. You still control the final decision, while the employee learns from analyzing the situation and making the recommendation.
- **INFORM, THEN IMPLEMENT.** Empower the employee to research and select the best option, inform you, and then be ready to implement it. Reassure him or her that you will be available to help in a pinch. You still retain veto power, but ideally the employee will choose well and your approval will be a formality.
- **TAKE ACTION.** When you're confident the employee can handle the task independently, assign the authority to act. The employee then carries out the entire task with your backing. Let the rest of your workforce know that the employee is acting in your name—and be sure the employee understands the responsibility with which you're entrusting him or her.

## Live today to its fullest, even at the end

A Zen master, known throughout the land for his great wisdom, was on his deathbed. People came to his bedside from all across the country to listen to his final words of wisdom.

Early one morning, not long before the end, one young disciple asked him, "Master, what can I do to make you more comfortable?"

The wise man said, "Please go to the village and fetch me a poppy seed cake."

The disciple hesitated. "But master, I would not want to miss your last words of wisdom."

"This is my last wish," the master replied. "Please fetch me a poppy seed cake."

So the young man ran to the village and found a nice, fresh slice of poppy seed cake. He brought it back to the master, who ate it very slowly.

Then the young man worked up the courage to ask, "Master, what is the greatest lesson you can teach me before you leave this life?"

The master smiled and replied, "This poppy seed cake is delicious!" And then he died peacefully.

It's a typically Zen-like philosophy: The past is an illusion, and the future is unknown. You only have the present moment, so live it to the fullest.



### Trinity Tax & Financial Solutions, Inc.

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