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BUSINESS BASICS:

Recordkeeping

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developed by
OSBDC at NWOSU

What Records Do I Need To Keep?

One of the problems small businesses run into is inadequate recordkeeping. Businesses that keep good records often spot problems in time to take the appropriate steps to avoid disaster.

While extra work may be required to keep adequate records, the work will more than repay you for the extra effort and expense.

If you are not prepared to make sure that adequate records are kept, you should not be opening a small business.

A good recordkeeping system must be:

1) Simple to use;
2) Easy to understand;
3) Reliable;
4) Accurate;
5) Consistent; and
6) Designed to provide information on a timely basis.

Types of Accounting Systems

There are several copyrighted systems providing simplified records, usually in a simple record book. These systems cover the basic records with complete instructions for their use. You can examine some of these systems at most office supply stores.

A very small business such as a hot dog stand will use the cash basis for bookkeeping. A larger, more complicated business no doubt will use the accrual basis. The dividing line between the cash basis and accrual basis might depend on whether or not credit is granted to customers and the amount of inventory required.

Accrual basis is defined as “a method of recording income and expenses in which each item is reported as earned or incurred, without regard to when accrual payments are received or made.” Charge sales are credited at once to Sales and charged to Accounts Receivable. When the bills are collected, the credit is to Accounts Receivable.

Accruals should also be made for expense items payable in the future, such as yearly or semiannual interest on loans.

More and more businesses are moving toward computerized accounting systems. While this may be more convenient and might save some time, you must weigh the "cost" of such systems against those factors. In many instances you will find that books, kept by hand, are just as accurate, don't take that much more time, and are considerably cheaper. Ultimately, however, the accounting system you choose is up to you and your business needs. We have provided four alternatives for your perusal.

1) **Hire an Accountant.** If you have little, or no, knowledge of recordkeeping, you might feel more comfortable hiring an accounting professional to do all of your books for you. They generally provide three levels of support service:

- **Compilation.** In a compilation, the accountant expresses no opinion on the accuracy of the information presented. All an accountant is required to do in preparing these financial statements is to take the data given to him or her by the business and present it in a manner that conforms with generally accepted accounting principles. The accountant has no obligation to do any investigating unless something looks suspicious or misleading. As the business owner, you remain ultimately responsible for ensuring your financial statements are accurate.

- **Review.** A review involves some limited analysis or testing of the financial records provided by the business to the accountant. However, the accountant expresses only a limited opinion as to the accuracy of the information. As the business owner, you remain ultimately responsible for ensuring your financial statements are accurate.

- **Audit.** Audits are much more involved (and more expensive). An accountant audits financial statements, verifying not only that your statements are presented in accordance with generally acceptable accounting principles but also checking and verifying that some or all of the accounts are real. In verifying records, accountants can request confirmations of bank accounts or receivable and payable account balances, and customer and/or vendor accounts to uncover any errors or fraud.

The Northwest Oklahoma SBDC, located in Alva at NWOSU - - with offices at the Enid NWOSU campus and Guymon, Oklahoma - - covers a large portion of Northwest Oklahoma.

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Even if you do choose to have your recordkeeping done by an accountant, you should remember that involving yourself in some way with your business's bookkeeping system will increase your awareness of what is going on in your business. You should, as a minimum, take the time to educate yourself on accounting basics. By keeping and reconciling your own checkbook and keeping a few simple records yourself, you can save money and be a better manager. A better option to choose might be to turn only the more complex recordkeeping over to your accountant. Since most business owners are not very knowledgeable about constantly changing tax laws and their fine points, record keeping relating to your taxes may best be done by your accountant. You might also ask your accountant to prepare monthly and end-of-the year balance sheets and P & L's.

2) **Computerized accounting.** If you already have a personal computer, you can most likely adapt it for recordkeeping with a good software package. However, keep in mind, that in order to keep records this way you will need not only a working knowledge of record keeping, but also of the computer, and the software package you have chosen.

3) **Single-Entry hand method.** For those who are not knowledgeable about double-entry bookkeeping, this method is simple to use. Single-entry bookkeeping is only slightly more complex than keeping a checkbook. It consists of three basic records:

- **Daily cash receipts summary.** This summary may come from a cash register tape or sales slips. It will give you a total of your daily cash receipts. In some instances, you can also break it down into sales by product, salesperson, and/or store.

- **Monthly cash receipts summary.** This is a simple summary of the daily cash receipts.

- **Monthly cash disbursements summary.** This is a report on expenses and other payments like debt repayments, purchases of capital assets, or distributions of profits.

While the single-entry method is simple, it is not considered to be a complete accounting system. It focuses on the P & L and doesn't provide a balance sheet. Even if your business is quite small when you begin, you most likely expect to grow and, when you do, you will need a more thorough bookkeeping system.

4) **Double-Entry hand method.** This accounting method provides all of the records and financial statements talked about in this section. Because it is much more complex than the single-entry system, you might want an accountant to help you set it up. He or she will tailor a chart of accounts to your specific business needs, building in internal controls to record all transactions.

Ultimately, the burden of proof, regarding your records, remains with the business owner. Take safeguards to make certain that the recordkeeping system you choose will allow you a clear, accurate picture of your business financials at any given point in time.

Keeping Accounting Records

Every small business, no matter the type or specific size, will need to keep accounting records for:

1) Tax returns under federal and state laws including income tax and social security laws;

2) Financial statements;

3) Request for credit from equipment manufacturers, suppliers, or a loan from a bank; and/or

4) Claims against the business

Most importantly, you need records to help increase your profits. With adequate record keeping you can answer questions about:

1) The amount of business you are doing
2) What your expenses are and which ones seem too high
3) What your gross and your net profits are
4) How much you are collecting on accounts receivable
5) The condition of your working capital
6) The amount of cash you have in the bank
7) The amount of money your owe your suppliers
8) Your net worth - - the value of the business
9) Trends in your receipts, expenses, profits, and net worth
10) If your financial position is improving or getting worse
11) How your assets compare with what you owe
12) What the percentage of return is on your investment
13) How many cents out of a dollar is yours in profit

Sales and use tax reports and remittances must be postmarked or received by the Oklahoma Tax Commission on or before the 15th day of the month in which they are due. A report that is not timely filed will be assessed interest and penalty from the 15th day of the month.

If you are operating a manufacturing concern, you may be eligible for a manufacturer's sales tax exemption. The exemption permits manufacturers to buy materials and sell wholesale without paying sales tax. To target this exemption status, contact the Oklahoma Tax Commission and request a ***Form 13-85.***

Applying for State Withholding Tax is accomplished through *the Oklahoma Tax Commission, Business Tax Division, for* ***Form OW-6-R-*** *Employer's Registration Report. Along with this form, you will receive detailed instructions about employee income tax withholding rates and schedules and on the filing payments of estimated income taxes due from the business.*

Withholding schedules provide graduated tax rates to be withheld by employers each pay period, giving considerations to a wage-earner's marital status and the number of dependents claimed. These withholding rates are designed to cover the approximate tax that will be due for taxpayers with standard deductions. The withholding tax is remitted monthly by companies withholding more than $500 per quarter. Companies withholding less than $500 need to remit on a quarterly basis to:

Oklahoma Tax Commission
2501 N. Lincoln Blvd.
Oklahoma City, OK 73194-0018
(405) 521-4321

While there is no “absolute” way to keep your company’s records and no “easy” way to keep everything within a clear cut paper trail, the methods listed herein have proven tried and true and have worked for thousands of successful businesses over the last few decades. As the old saying goes “if it ain’t broke, don’t fix it.” And that surely applies here.

You must have this number before making any retail sales. Oklahoma Sales Tax is levied at 4.5% of the gross receipts from the sale or rental of tangible personal property and from the furnishing of specific services, including printing and advertising (except in newspapers, periodicals, and on billboards, as well as any advertising through the electronic broadcast media, including radio, television, and cable television), transportation and auto parking, admissions, lodging, meals, telephone service and the furnishing of other public utilities, such as electricity and natural gas, with the exception of water. State sales tax does not apply to electricity or natural gas utility bills for residential property. However, the furnishing of these items for commercial use, such as a retail store, warehouse, etc. is taxable. Natural gas and electricity used directly in the manufacturing process are exempt. City sales taxes are also applicable. The amount of sales tax a seller is required to collect constitutes a debt owed to the tax-levying authority. The seller, acting as a middleman, is allowed to retain 2.25% of the tax as compensation for collection service, provided it is remitted on a timely basis. There are several other exemptions from sales tax, including general exemptions, agricultural exemptions, and tax-exempt organizations.

Oklahoma cities and towns may levy municipal sales taxes. Local tax ordinances must be approved by a majority vote in a city wide election. There is presently no maximum local rate that may be levied by cities and towns. Counties with populations of less than 300,000 may levy a county tax not to exceed 2.25%. The county sales tax is in addition to existing 4.5% state and applicable municipal sales tax.

A 4.5% levy in the sale price of tangible personal property purchased outside of Oklahoma and stored, used, or otherwise consumed within the state is Oklahoma Use Tax. Oklahoma sales tax cannot be imposed on sales which occurred in another state, but use tax applies when the taxable item is brought into the state for use.

Governing bodies of municipalities that levy a sales tax are also authorized to levee a municipal use tax in addition to the 4.5% state use tax on out-of-state purchases on which Oklahoma sales tax has not been paid. The municipal use tax may not exceed an existing city sales tax.

Records You Need To Keep

Accounting systems can, and should, be tailored to your specific business needs. But every business will require certain records to keep track of daily transactions. The most common include:

1) **Revenue and Expense Journal.** This is the main general record kept by every successful business. It is used to record each individual transaction of income received (revenue) and cash disbursed (expense). At the end of the month the revenue and expense columns are totaled and the totals are transferred to the P & L (profit and loss statement).

2) **Petty Cash Record.** Petty cash keeps track, through voucher receipts, of cash expenditures which are too small to justify writing a check but are tax deductible. A petty cash fund also eliminates paying for miscellaneous small expenses out of your own pocket. Petty cash purchases are recorded in a separate journal with receipts for each purchase attached. Periodically, write a business check to reimburse Petty Cash.

3) **Inventory Records.** Inventory records keep track of your products. The IRS will require a beginning and ending inventory for each taxable year.

4) **Fixed Assets Log.** This log lists all assets that must be capitalized or depreciated over a specified period of time. These include items that were purchased for use in your business; not for resale. They are subject to depreciation over a period of time regulated by tax laws.

5) **Accounts Payable Journal.** This keeps track of all funds that are paid out. Each check written is entered into the journal. Each entry shows the classification of the disbursement (e.g., office supplies, travel etc.) Establish a filing system for the invoices received when orders are delivered. When you pay an invoice, write "paid" on it, record the date it was paid, the check number used, and sign or initial it. File the paid invoices by the vendor name so that you can easily retrieve them if needed. Pay only the original invoice to avoid paying an account twice. To maintain good credit for your business, you should pay all bills in a timely manner. Whatever system you use to keep track of invoices, you should note the date they should be paid in order to avoid additional charges or penalties.

6) **Cash Receipts Journal.** This journal records all of your cash receipts.

7) **Accounts Receivable Journal.** This tracks debts owed by your customers as a result of product or service purchases from your business. Each client with an open account is maintained separately. This information will be used to generate monthly client invoices.

8) **Personal Expense Account.** These records keep track of auto, transportation, meals, and entertainment expenses accumulated by your business. Because of past abuses in this area, the IRS carefully examines all personal expense claims. For this reason, it is imperative that you keep good, accurate records of these type of expenses. A mileage log should be carried with you each time you use your vehicle for company reasons. The mileage gage, before you begin travel, should be recorded in the log. Once you have completed your travel, the mileage gage amount should be recorded again. No other travel should be recorded in between those two numbers.

9) **Business Checkbook.** The checkbook is used to record all funds that pass in and out of the company through a checking account. When used in conjunction with other records, the checkbook helps you to prove how much money was handled, how much was taxable income, and what amounts were deductible for tax purposes. It also provides an accurate account of all deposits made to your business account and a running total of the cash available to your business. It should be reconciled with your monthly bank statement. One of the first steps in starting your business is setting up a business account. **Under no circumstances should personal and business monies be mingled in a single account.**

10) **Insurance Records.** Each policy should be listed showing the type of insurance coverage, the name of the insurer, the effective date(s) and the annual premiums.

11) **Customer Records.** These records are typically kept to help your business deal more effectively with its customers. The type you choose to keep is totally up to you. They could be as simple as an index of customers on 3x5 cards, listing customer name, address, phone number, services rendered, purchases made, and any other information you feel pertinent.

Sanctions for failure to comply include warnings, cease and desist orders, and civil penalties ranging from $100 to $10,000. Criminal penalties may be imposed for a pattern and practice of violation. Information on specific requirements of the law may be obtained from the:

U.S. Immigration and Naturalization Service
4149 Highline Blvd., Suite 300
Oklahoma City, OK 73108
(405) 231-4121

At the end of the year, business may be required to file information returns for payments of rent, contract labor, royalties, interest, or distribution to businesses or people who are not employees.

Other tax record requirements will include:

1) Unemployment insurance
2) Sales tax permit
3) State Withholding Tax

Unemployment Insurance. *Apply to Oklahoma Employment Security Commission for OES-1, Statue Report. The Oklahoma Employment Security Act provides that under certain conditions payments of money may be made to unemployed individuals from an unemployment compensation fund contributed to by employers subject to the Act.* ***The Employer's Guide, Information About Unemployment Compensation*** *is a good source of information regarding the mandated requirements of unemployment compensation. This publication is available free from:*

Oklahoma Employment Security Commission
2401 North Lincoln Blvd., Room 220
Oklahoma City, OK 73105-4495
(405) 557-7200

Sales tax permit. *To apply for a sales tax permit, complete* ***Form 13-60-R-85 Sales Tax Division*** *and return to:*

Oklahoma Tax Commission
2501 North Lincoln Blvd.
Oklahoma City, OK 73194
(405) 521-3265

The form needed for your EIN is called an ***SS-4***. It should be completed and returned to the:

Internal Revenue Service Center
Austin, Texas 73304
1-800-829-3676

The service center can provide information on estimating Federal Self-employment Tax once your business begins to turn a taxable profit. Individuals file on ***Form 1040-ES***. A corporation will make estimated tax payments if it has a taxable income as early as the fourth month of its first tax year. Federal estimated tax payments should be computed on ***Form 1120-W*** which can be obtained at the IRS office listed above. Corporations will be issued one Federal Tax Deposit coupon book which contains 15 coupons, preprinted with the corporate tax identification number. These coupons can be used for deposits of all types of federal taxes.

IMPORTANT!!! A 5% penalty may be imposed for failure to make deposits directly to an authorized depository. In the past, when tax deposit cards were unavailable, it was common to mail payments to the IRS with a letter indicating the nature of the payment and requesting additional tax deposit cards. This method is no longer acceptable. Therefore, it is important to mail the reorder form in time to receive additional coupon books before you run out!!!

Amendments to the *Federal Immigration and Nationality Act (P.L. 99-603)* also requires that employer verify that individuals they hire are legally authorized to work in the U.S. The law applies to all employers, regardless of the number of employees, and to all individuals hired after November 6, 1986. Employers must attest, under penalty of perjury, on a form provided by the U.S. Attorney General that it has verified, by examining the documents specified in the law, that each employee is authorized to work in this country. Documents that satisfy verification requirements include a U.S. passport, Certificate of U.S. Citizenship, Certificate of Naturalization, certain foreign passports, and a resident alien card. Documents such as a social security card or birth certificate are also acceptable if examined together with approved identification such as a driver's license.

Employers must keep verification forms on file for three years from the hire date or for one year following separation from service, whichever is later. The forms may be inspected by the U.S. Immigration Service or the U.S. Department of Labor.

12) **Payroll Records.** Certain records must be kept on file for each employee you hire. These include a W-4 and an I-9 (Immigration and Naturalization Form). Yearly and quarterly payroll reports of individual payroll payments must be made to state and federal governments. At year end, a W-2, showing the total withholding payments made for each employee, must be given to that employee for income tax purposes. A summary payroll showing each employee's name, hours worked (including overtime), total pay and deductions for FICA, withholding taxes, insurance, pension, and/or savings plans, etc. must be kept. IRS requirements regarding payroll records are quite stringent and constantly changing. Most small businesses seek the assistance of a trained professional in this area to help set up (and sometimes to maintain) these records.

While there is no definitive order to recordkeeping, it should be done in a timely manner in order for the records to be truly effective. A general recordkeeping schedule might be:

Daily

Determine cash on hand
Determine bank balance
Summarize sales and receipts
File incoming invoices
Record and put away incoming inventory
Pay invoices to meet discount deadlines

Weekly

Prepare and record deposits
Record sales information to inventory
Enter checkbook information into Revenue & Expense Journal
Record Petty Cash transactions
Enter any necessary fixed assets into the Fixed Assets Log
Record all accounts receivable for the week
Record all accounts payable for the week
Record payroll accounts
Record any necessary tax reports

Monthly

Balance checkbook and reconcile with bank statement
Enter earned interest and bank charges in Revenue & Expense Journal and checkbook
Total and balance all Revenue & Expense Journal columns
Enter monthly income and expense totals on P & L
Check Accounts Receivable and send out the necessary invoices
Prepare a P & L for the month

End of the Year

Pay invoices, taxes, and other expenses you want to deduct for the year
Transfer monthly totals from the Revenue & Expense Journal to the P & L
Total the horizontal columns of the P & L
Prepare an end-of-the-year Balance Sheet
Using your P & L, prepare a Cash Flow for the next year
Make an appointment with your tax accountant
Set up new records for the coming year

Financial Statements

Financial statements are developed from the general records discussed previously in this section. Financial statements are used to provide you with the information you need to help you determine the financial condition of your business and for your use in preparing tax returns. The two primary financial statements are:

1) A balance sheet and a
2) Profit & Loss Statement

A balance sheet. *Usually done at the end of every accounting period, the balance sheet lists your business's assets (anything your business owns), liabilities (anything your business owes), and net worth (assets - liabilities = net worth). The balance sheet, like a photograph, transmits a clear picture of your company's financial condition at a given moment in time. This lets you determine if your business's financial condition is strong or weak, thus allowing for effective analysis of your business. If you have more assets than you owe, then your net worth is positive. However, if the business owes more than it owns, then the net worth will be negative.*

The profit & loss statement *shows your business financial activity over a specified period of time. Like a moving picture, the P & L shows where your money came from and where it was expensed. It is prepared by transferring totals from your Revenue and Expense Journal at the end of each month. From it, you will be able to pick out weaknesses in your operation and plan ways to be more effective in your business's management in order to increase profits. Comparing P & L's over a number of years will also reveal trends in your business like high revenue periods, effective advertising months, increases or decreases in profit margin, and a lot of other valuable information.*

Home-based businesses may also be entitled to certain tax deductions. Rules regarding these deductions are stringent and businesses are required to meet some very technical requirements. The most common mistake that businesses make is to setup a home office that doubles for another function (e.g., an office in a guest bedroom). In the past such setups have been allowed; however, new rulings state that home-based offices must be:

1) Used exclusively for the purpose of the business
2) Used as the principal place of your business
3) Used as a place to meet clients, customers, or patients
4) A separate structure not attached to the home

Two exceptions are made where part of a home is regularly, but not exclusively used. These are for:

1) The storage of inventory
2) A day care facility

If your office fits these rulings, you may deduct expenses that are allowed to that portion of your home that is used by your business. For example, if your home office is 150 square feet, representing 10 percent of your home's space, then you can deduct 10% of your occupancy costs (gas, electricity, water, rent or house payment, etc.). For information on home-based business deductions, obtain ***Publication 587, Business Use of Your Home,*** from your local IRS office.

We have only covered basic tax issues in this pamphlet. The Oklahoma Small Business Development Center, the Oklahoma Tax Commission, and the Internal Revenue Service provide periodic workshops - - **AT NO FEE** - - to new and potential small business owners. You should take the time to attend one of these workshops for the purpose of obtaining more detailed tax information that you will need for your business. To obtain a schedule of upcoming workshops, contact the SBDC, (580) 213-3197.

You may be required to have an Employer's Identification Number (EIN) to use on certain documents requesting that information, even if you are not an employer. If you do not have an EIN you must apply for one before you pay wages to one or more employees or become the new owner of an existing business.

If you use your automobile more than 50 percent for business purposes, you can deduct a part of the costs of owning and operating the vehicle. However, you must be able to substantiate the deductions. Most individuals find it more advantageous to deduct a flat 34.5 cents per mile for business mileage rather than trying to authenticate various kinds of expenses. Even under this method, however, you must keep an accurate log of the mileage used for business-related purposes.

Tax credits for hiring some economically disadvantaged groups are also possible. These include:

1) **Vocational rehabilitation** which includes referrals of individuals completing rehabilitation programs

2) **Economically disadvantaged youth** between the ages of 18 and 22

3) **Economically disadvantaged Vietnam Veterans**

4) **SSI recipients** who are 65 or older or individuals who are blind or have a disability

5) **Welfare recipients**

6) **Economically disadvantaged ex-convicts**

7) **Cooperative education youth** between 16 and 20 who have not finished high school

8) **Summer youth** 16-17 years of age, hired for work between May 1 and September 15

Tax credits allowed include 40 percent of wages for all qualified employees listed above, except summer youth employees, on the first $6,000 for a maximum credit of $2,400 per employee for those that work a minimum of 90 days or 120 hours; 40 percent of the first 90 days' wages for up to $3,000 or a maximum credit of $1,200 per employee working 14 days or 20 hours. But these credits are difficult to obtain because of restrictions relating to them. First, anti-discriminatory regulations make it virtually impossible to ascertain if potential employees are a legitimate part of an economically disadvantaged group. In other words, you are not allowed to ask them those type of questions. Second, the employer must file for, and receive, a certificate identifying the company as a state employment security agency at least one day prior to the employee beginning work at the company. If you are interested in taking advantage of this tax credit, contact your local state employment agency for assistance.

General ledgers *are kept to record transactions and balances of individual accounts such as:*

1) Assets
2) Liabilities
3) Capital
4) Sales
5) Expenses

At the end of each fiscal year or accounting period, accounts are balanced and closed. Sales and expense account balances are transferred to the summary of revenue and expenses and are used in the income statement. The remaining assets, liabilities, and capital accounts provide the figures for the balance sheet.

The use of too many accounts should be avoided. Break down sales into enough categories to show a clear picture of the business. Use different expense accounts covering frequent or substantial expenditures but avoid minute distinctions which will tend to confuse rather than clarify. Use miscellaneous expenses for small unrelated expense items.

A charge to expenses should be made to cover depreciation of fixed assets, other than land. The corresponding credits are to accumulated depreciation.

Fixed assets may be defined as items normally in use for one year or longer, such as:

1) Buildings
2) Automotive equipment
3) Tools
4) Equipment
5) Furniture
6) Fixtures

Smaller businesses will usually charge depreciation at the end of their fiscal year, but a business with very substantial fixed assets, such as a motel, will probably calculate depreciation monthly.

A summary payroll should be made each pay day showing names, employee number, rate of pay, hours worked, overtime hours, total pay and amount of deductions for FICA, withholding taxes and deductions for insurance, pension and/or savings plans.

Also, a separate sheet should be kept for each employee. On this individual payroll record, list the rate of pay, social security number, and so on. Enter amounts for each pay period, covering hours worked, gross pay, and the various deductions. At the end of each quarter add the amounts and balance. These forms provide the data you need for quarterly and annual reports.

While the different types of records may vary from company to company, there are certain types that are somewhat standard in nature; albeit not necessary. These include:

1) An equipment list
2) Insurance records

Equipment List. *Keep a careful list of permanent equipment used in the business. Keep track of items for a year or longer and of appreciable value. Show date purchased, name of supplier, description of item, check number by which paid, and amount. If you own quite a number of items, prepare separate listings for automotive equipment, tools, and manufacturing equipment, and furniture and fixtures. These lists provide the basis for calculating depreciation and provide supporting data for fixed asset accounts.*

Insurance Records*.* *Most businesses will have several types of insurance. Each policy should be listed showing the type of coverage, the name of the insurer, dates effective, and annual premiums. Be sure that all necessary types of coverage are obtained. Ask your insurance agent or broker to analyze your coverage.*

A set of books is like a roll of exposed film. The latter must be developed before you can see the picture. Similarly your books contain facts and figures which make up a picture of your business. They have to arranged into an order before you see the picture.

You draw a picture by preparing financial statements such as a profit and loss statement. The P and L, or income statement shows what profit or loss your business had in a certain time period.

Some aspects of the financial picture of a small business may stick out like a sore thumb. Other aspects will be much more murky and difficult to determine. This is where the assistance of an accountant may be necessary.

Small Business And Taxes

As a business owner, it is important that you understand both your tax rights and responsibilities. While we obviously cannot cover all of the relevant tax information in this pamphlet, we can talk about those that are most important to a new business owner. Keep in mind that this information is not intended to take the place of professional tax advice. You should contact the experts for a more detailed analysis of your business situation.

A major advantage of opening your own business is that you may be able to deduct certain expenses as business-related. Keep in mind, however, that rulings regarding such deductions change constantly. You must keep up to date with all such changes. For example, in the past small businesses have been allowed to deduct costs related to attending foreign conventions. Such deductions have now been extremely curtailed unless you can show the need for the convention to be held abroad and that the convention is directly related to your business.

To claim business deductions for expenses such as travel, entertainment, and meals you must keep detailed records of each expenditure (e.g., bills, receipts, etc.) including:

1) How the expenditure relates to your business
2) When the expense occurred (by date and time, if possible)
3) Where the expense was incurred and to whom it was paid
4) The amount of the expense
5) The identities of individuals involved

However, not all entertainment expense deductions will be allowed. You must be able to verify that business conversation occurred. Entertainment for the purposes of "making a good impression" are not allowable. For in-depth information on tax deductions for these type of expenses request *Publication 463 - Travel, Entertainment, and Gift Expenses* from you local IRS office.