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Earn Thousands Extra Yearly with Your Own Business, and Thousands More with Strategic Entity Choice.

I have helped people save money on their taxes for over 20 years. In that time, I have condensed my basic tax advice to four simple steps. I urge my clients to live in their homes for at least 5 years, and to own them. I encourage them to make regular monthly additions to their retirement savings, and especially like the new Roth IRAs, as well as 401K plans when employer matching is available. I am saddened repeatedly when I see how much most people pay for health care and how heavy the tax burden is on the income they use for health care needs, so I encourage people to take advantage of flexible benefit plans at work.

These first three steps alone can help most people keep thousands more each year of their hard earned money. Then I introduce the best idea I have. I truly believe everyone should have their own business. Even if you love your job, are paid well, and plan to stay there until retirement, I beg you to start a part-time business. I promise you it will be the best financial decision you ever make!

A Part-Time Business Can Make You Financially Independent!

Everyone has their own definition of how much money you have to accumulate so that you could live off the interest, dividends, and capital gains without having to touch the principal or go back to work. Most would consider themselves financially independent if they could accumulate \$2 million, an amount that would allow ongoing \$10,000 monthly withdrawals, while continuing to build the account, based on average investment return of 6% or better each year.

The stock market has consistently provided the highest average returns over periods of 10 years or more, at about 11% per year. A young person who catches the vision early can accumulate \$2 million by saving \$2,028 each year starting at age 20 and continuing for 45 years, thus turning a total investment of \$91,260 into \$2 million. Waiting 5 years to start at age 25 and continue for 40 years, requires \$3,438 in annual savings, turning \$137,520 into \$2 million. Is there any doubt that those who understand interest collect it, and those who don't pay it?

Waiting longer requires more savings, but it is still possible. Saving for only 20 years at \$31,152 each year will still allow you to accumulate \$2 million from total savings of \$623,140.

I'd like to show you how to earn \$31,152, or more, after tax, with a part-time business! A part-time business is superior to a pay raise or a second job for many reasons. J. Paul Getty, a world class wealth builder, said that he would prefer to have 1% of the combined efforts of 100 people than 100% of his own efforts. Having your own part-time business allows you to do this. It also allows you to build equity, creating something of value you can sell later, much like buying a home builds equity while renting does not.

What Kind Of Part-time Business Should I Start?

Choose something you would really enjoy doing! Time is a very precious commodity, so don't use it doing things you don't like. Involving family and friends can be great too, because then you can earn good money by doing the things that you like with the people you want to be with!

Take the time to consider basic business planning. If you operate your business seriously, you will earn more money and be more satisfied!

Marketing is a logical place to start your business planning. Get a clean pad of paper and write down all the ways you have noticed other people spending money on your hobby. For example, if you like mountain biking, you might enjoy writing booklets on great places to ride and placing them on consignment with bike shops or sporting goods stores. Think of how pictures would make them sell even faster! You could also sell information about your training techniques, or perhaps a more comfortable helmet you have developed for your own use. Another alternative would be to develop your own line of biking accessories to sell by direct mail or through the Internet. Just about anything is possible!

Start another page of your paper pad and list the groups of people who would likely be interested in your product or service. Ponder the best ways to get your message to these select people. At this point you will be well on your way to developing a specific product or service that is legitimately marketable to an identified group of people.

Financing plans should come next. Start by developing a simple budget. Make your estimates of potential sales and sales growth low and be generous in your assumptions about expenses. Look at more than one year to see how long it may take to begin earning profits.

Continue your financial projections by considering what your initial start-up equipment, inventory, marketing, licensing, and other costs will be, and what additions to these items are anticipated each year. Contemplate in advance what kind of credit terms you will be offering (cash, credit cards, or 30 day terms to proven customers) and thus how much working capital you will need to carry your credit customers until they pay. This information will give you a good idea how much money you will need to start and develop your business, which in turn will help you find funding sources from yourself and your associates, as well as banks, and others.

Other Considerations. There is much more to a good business plan than this brief outline, but armed with the information you gather about marketing and finance, you can get good help to complete the rest.

If you are still not sure where to start, please e-mail me at dougbeecher@yahoo.com. I will be pleased to give you personal help as well as some suggestions as to some exciting new business ventures that are available with a small start-up commitment of both time and money!

The Tax Benefits of Owning Your Own Part-time Business!

There are rules you must follow, of course, but doing so allows you to develop a true business purpose for many things you would have paid for personally with after-tax dollars. Now you can legally have your part-time business pay for these things, *before the income is taxed!* This can include cars, meals, entertainment, travel, computers, cell phones, education, health care, work tools, uniforms, even the utilities, insurance, and related costs of your home office! The rules actually are simple. You need to have a business plan, you need to follow it, it needs to provide a path to profitability in a reasonable time, and if the plan does not prove to be as profitable as hoped, you need to get professional help to begin earning profits. (This statement is based on continuing tax court cases that try to resolve the issue of the difference between a non-deductible hobby and a legitimate business.)

What Form Of Entity Should I Choose For My Part-Time Business?

There are several choices of business entity. Sometimes just one choice makes the most sense. More often the business and your objectives will grow to the point that a combination of entities gives you the greatest benefit.

The choices that will be discussed here are:

- Sole proprietorship
- General partnership
- S corporation
- C corporation
- Limited Liability Company (LLC)
- Limited partnership
- Business trust.

Sole Proprietorship – An Easy Starting Point

A sole proprietorship is very easy to begin. You can decide to use your own name, which means opening the business is a simple matter of contacting your city or county to determine if they require a business license for what you propose to do, visiting the bank or credit union of your choice to open a business checking account, getting proper insurance coverage from your agent, and meeting with your accountant and attorney to make sure you are doing these things right. If you are going to use another name, you must register it. If you are going to have employees or make sell products subject to the sales tax, you will have some simple additional startup tasks.

There are two fundamental problems with the sole proprietorship form of organization. One is that a 15.3% self-employment tax is due on top of all Federal and State income taxes, which will total 35% or more, on all company profits. Thus you will have to earn \$62,680 in profits to have the desired \$31,152 left after taxes!

An additional problem is that there is no separation of liability between the owner and the business, causing the owner to be personally responsible for all business debts.

Thus, the sole proprietorship form should only be used in the beginning stages of a business, generally when profits after all possible deductions are less than \$3,000. There is a tax benefit available only to sole proprietors, which is that their dependent children under age 18 living at home are exempt from social security, Medicare, and other employment taxes. *This can make it beneficial to have a small sole proprietorship that bills out just enough for janitorial or simple office services to cover the children's payroll and very little more.*

General Partnership – All the Problems, None of the Benefits.

The next step up from the sole proprietorship is the general partnership. The taxation in both is identical – all business profits are subject to full income taxes and the 15.3% self-employment tax. The liability issues are worse than in the sole proprietorship, because now a partner exists who can make debts the business is liable for, go bankrupt and escape them, requiring the remaining owner to pay for obligations he or she possibly didn't agree to! Avoid the general partnership for sure!

S Corporation – A Good Choice When Profits are Likely to Be Distributed to Owners.

The S corporation provides a legal separation between the owners (shareholders) and the business. Be careful before signing personal guarantees, because these will negate the liability protections. If the business is going to distribute the \$31,152 in planned profits rather than save them, the S corporation is the way to go. Social security and Medicare taxes replace the self-employment tax, and are only paid on the reasonable wages paid the shareholder-employees, which are then deducted from profits before the remainder is distributed to the shareholders as dividends. Full income taxes are still due, which means \$47,926 must be earned after expenses and taxes to have \$31,152 to distribute to the shareholders, but this is a \$14,754 improvement over the sole proprietorship!

C Corporation – The Best Choice to Maximize Tax Savings.

The C Corporation has identical legal liability protections as the S corporation, and has the additional benefit of having its own tax brackets, separate from its owners. The first \$50,000 of income after expenses is taxed at only 15% Federal plus your state tax. I particularly like Nevada corporations, which can be set up with their own office (see my separate sheet on this) and deal in your home state through independent contractors, if needed. Nevada has very favorable corporation laws and no state income tax. This means that in order to have \$31,152 available for the shareholders to accumulate, only \$36,650 needs to be earned, which is another \$11,276 improvement over the S corporation and a whopping \$26,030 better than the sole proprietorship!

The C Corporation can also provide its employees with top-notch pension, health and other benefits, plus a company car if needed to conduct company business. It can develop its own individual credit separate from its owners, another great benefit!

Limited Liability Company – A Compromise Choice

The limited liability company is the newest choice, so there are not as many court decisions to rely upon regarding liability, but generally should provide similar protection to the corporation. It is taxed like an S corporation for passive owners, but like a sole proprietorship or a general partnership for active owners. They are a useful tool if you want to do a joint venture of several corporations to do a specific project, or to own and operate rental real estate. Otherwise, I recommend one of the corporate forms.

Limited Partnership – Good for Family Income Splitting In Some Cases

The limited partnership's main advantage is there can be a difference between earning percentages and voting percentages of the owners, since there are both general and limited partners. But beware, the general partner has full liability exposure, although this can be minimized by using a corporation as the general partner. This is a specialized tool, good for very specific needs, but in most cases, other forms of organization will work better.

Business Trust – Avoid Them!

Some people tout the business trust as a way to maximize privacy and as a claimed way to avoid taxes. They are being shot down in tax court regularly. Trusts are useful for certain purposes, generally to hold assets for minors or others who are not ready to be responsible for them themselves. Remember that the trust itself has the highest tax rates of any entity, and that to avoid these taxes, income must be distributed to the beneficiaries, which is often what you set up the trust to avoid. Look hard at the other forms of organization before choosing the trust, and don't use them to operate a business!