

Small Business Toolkit

Small Business Resources on the Internet

Independent Accountants Association of Illinois: www.illinoisaccountants.com Very good "Resource Center" for tax and business articles. No registration or cookies. "Find an Accountant" on this website. Also, go to Resource Center, then Tax Center, and check Small Business for find the **Economic Development Business Resource Guide**, featuring 21 pages with over 120 small business incentives to start or expand a business.

City of Chicago Department of Planning and Development: <http://egov.cityofchicago.org/> Then click on For Business to get information on Business Assistance.

City of Chicago Treasurer's Office: <http://www.chicagocitytreasurer.com/> Check out their Small Business Expo site and their Community Outreach site.

Cook County Planning and Development: <http://www.cookcountygov.com/> Locate their Planning and Development Department whose mission is to promote community and economic growth in the region by investing in affordable housing, public infrastructure/safety, and the retention and expansion of businesses and jobs in Cook County.

Internal Revenue Service: <http://www.irs.gov/businesses/small/index.html> This is their Small Business and Self-Employed Tax Center with much information for the businessman.

Money Magazine: <http://money.cnn.com/smallbusiness/> Many excellent articles designed for small businesses: Starting a business with limited cash. Why businesses fail. Seven deadly sins.

Fortune Small Business: <http://magazine-directory.com/Fortune-Small-Business.htm> Similar articles for small businessmen.

SBA Small Business Planner: <http://www.sba.gov/smallbusinessplanner/index.html> On-line training materials. Including writing a business plan.

SCORE Chicago: www.scorechicago.org/ Provides free business advice, management counseling, and business workshops for little or no cost.

State of Illinois Treasurer: Employ Illinois for business owners and child care providers (includes Linked Deposit Program) for further information, see the following website;
<http://www.treasurer.il.gov/programs/economic-opportunity/economic-opportunity.aspx>

State of Illinois Small Business Portal: <http://business.illinois.gov/starting.cfm> Business Start-up Guide.

Wikipedia on-line encyclopedia: http://en.wikipedia.org/wiki/Small_business Excellent resource and search engine. Explains accounting and financial ratios.

WARNING: Researching your new business? Do not sign up for charges to your credit card, and do not accept cookies. Use caution when signing up for newsletters.

Presented by the Independent Accountants Association of Illinois to help small business start and grow. Call 1-800-222-2270 to find a business and tax accountant near you.



Starting a Business Checklist

1. **Get Help.** Contact SCORE Chicago (500 W. Madison Suite 1250, Chicago, IL 60661) (312) 353-7724 for startup counseling and workshops at very low cost. Or, go to www.scorechicago.org/
2. **Chose the type of business entity.** Sole Proprietorship, Corporation, S-Corporation, L.L.C. or Partnership. Confused? Go to http://taxes.about.com/od/taxplanning/a/loss_strategies_4.htm
3. **Why do Accounting? Most new businesses fail. Why?**
 - a. Lack of startup plan. Need to do a trial run of new business.
 - b. Uncontrolled costs (startup and ongoing).
 - c. Uncontrolled employees (theft & overtime).
 - d. Not concentrating on getting customers.
 - e. Not paying payroll taxes.
 - f. Tells you how you are doing -- where you are going.
 - g. You can make changes before it is too late.
 - h. Needed to get financing.
4. **What Information Can You Get?**
 - a. Employee Controls
 - i. Overtime
 - ii. Cash Register Theft
 - iii. Inventory Theft
 - b. Customer Controls
 - i. Inventory Theft
 - ii. Past Due Accounts
5. **Recordkeeping Styles**
 - a. Single entry records. (Examples Quicken Software \$70-\$100, & Dome Bookkeeping Journal Books \$13/year at Staples.)
 - i. Sales or cash register records.
 - ii. Uses your check register.
 - iii. Simple to use.
 - b. Double entry records. (Quickbooks \$200 with payroll, \$400 for business specific)
 - i. Needs adjusting entries.
 - ii. Needs closing entries.
 - iii. Complicated, requires training.
6. **Payroll Processing.**
 - a. **Before hiring:** Get filled in application, copy Social Security Card, I-9 Immigration form, W-4, ILW-4. Check references.
 - b. **Register on-line** as employer with IRS, IL Dept. of Revenue, IL Dept. of Employment Security.
 - c. **Pay employees** on an established basis: weekly, bi-weekly, or semi-monthly.
 - d. **Beware of misclassifying employees as subcontractors.** Many penalties for misrepresenting employees on 1099-Misc. forms.
7. **Payroll Deposits.** Generally deposit monthly for:
 - a. US withholding. Use tables for marriage status & exemptions. Pay by the 15th of the following month, or quarterly.
 - b. IL withholding. Use tables for exemptions. Pay by the 15th of the following month.
 - c. Social Security tax @ 6.2%. # Employer matches SS & Medicare taxes.
 - d. Medicare tax @ 1.45% # Employer matches SS & Medicare taxes.
 - e. Unemployment taxes are due in the month after the quarter.

Business Highlights of the American Recovery and Reinvestment Act of 2009



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Top Ten Major Provisions (Least Important to Most Important)

10. Bonus Depreciation and Section 179 Expensing for big equipment items extended from 2008 into 2009. Maximum increased from \$250,000 to \$350,000. Unfortunately few small businesses are able to take advantage of the large expense deductions.

9. Luxury Car first year depreciation limit is \$10,960, or \$11,060 for truck or van.

8. Small Business Stock acquired after 2/17/09 and before 12/31/10 can have 75% of capital gain excluded when sold by an individual.

7. Maximum 5 year Carry-back Period for 2008 Net Operating Losses of Small Businesses. Previous was just 2 years.

6. Work Opportunity Credit of 40% of first \$6,000 wages paid to qualified employees (certified by state agency) working 400 hours or more, 25% for employees working 120-400 hours. New law extends this to unemployed veterans and "disconnected youths" (not regularly attending school, and lacking basic job skills).

5. Estimated Tax Payment are reduced to 90% for 2009 payments (was 100% or 110%). Applies only to taxpayers whose income is more than 50% from a small business (less than 500 employees), and whose preceding year's tax was less than \$500,000.

4. Residential Energy Credit which ended in 2007 with a \$500 maximum credit. Is brought back for 2009 and 2010 with a \$1,500 maximum credit (less amount taken in 2007 and previously). Sorry, 2008 energy improvements DO NOT COUNT. This is an opportunity for small Heating, Air Conditioning, Insulation, Door and Window sellers and installers.

3. First Time Home Buyers Credit increases to \$8,000 maximum for homes purchased between January 1, 2009 and November 30, 2009. Does not have to be repaid if the taxpayer sells the home after 36 months. This also is an opportunity for Real Estate Salespeople, Mortgage Brokers, Appraisers, and Home Supply businesses.

2. An estimated 158,000 Illinois jobs will be created or saved by this Stimulus Act. *Employment Projections: Romer, Christina and Jared Bernstein.*

1. **Most Important.** It has been estimated that there are over 9,000 "pork projects" in this bill and in the Omnibus Spending Bill. Many of those directly affected are Construction Contractors for Schools and Infrastructure, their employees and suppliers. Also affected are Auto Makers, and many more businesses affected by the projects which may pass with the Omnibus Spending bill. A good businessman should quickly determine what business may be positively affected by these projects, and position his business to support or participate in these projects.

WARNING: Seek qualified tax advice for application to individual circumstances.

What about Individuals?

Plenty to Talk About for 2009 Changes

- 1. Cash for Clunkers.** New program signed 06/25/09. Limited to new vehicles purchased between 07/01/09-11/01/09. Government will rebate on the purchase price \$3,500, or \$4,500 toward a new more efficient vehicle, if the trade-in was owned for at least a year AND is in drivable condition. Old car will be junked. Therefore doesn't apply to trade-ins worth more than \$4,500. Total rebates limited to \$1 Billion. Applies when the new car is more fuel efficient. Helps car makers, new dealers, repair shops, business cars and trucks, and consumers. More info at www.cars.gov.
- 2. Sales Tax Deduction for New Vehicles.** Effective for purchases from 02/17/09-12/31/09. Limited to sales tax on first \$49,500 with a phase out for higher incomes. Sales tax on new vehicle(s) are deducted BEFORE itemizing deductions.
- 3. COBRA Insurance 65% cost reduction.** FORMER employees have had to pay 100% of the cost to continue employer's coverage. For those on COBRA, effective 04/01/09-12/31/09, they only have to pay 35%, with the employer paying 100% of the premiums, but taking a 65% off the federal withholding tax payments. In effect, the Federal Government pays 65% , for \$25 Billion cost. Why? Pilot program for National Health Insurance is best guess.
- 4. First-Time Home Buyer Tax Credit (\$8,000).** Effective for home purchases between 01/01/09-11/30/09, for person(s) who have not owned a principal residence in the last three years. For 2009 purchases, an amended 2008 return can be filed to get the \$8,000 in a couple of months, rather than waiting to next spring. Use IRS Form 5405, and must attach a copy of the HUD closing statement. Full credit is limited to joint incomes under \$150,000, single under \$75,000. More info at www.federalhousingtaxcredit.com. Total cost \$?? Billions.
- 5. Making Work Pay Tax Credit.** For 2009 and 2010, Refundable credit of \$400 (\$800 for joint filers), or 6.2% of taxpayer's earned income, if less. Offset by lower withholding, so this credit comes in the paycheck as an estimate. Phased out above \$75,000 gross income (\$150,000 if joint). Many issues for self-employed, overpaid credits, etc.
- 6. Retiree Credit payment of \$250 (\$500 if joint) for 2009.** This was paid to retirees in May or June, 2009. Can't get both this and the Making Work Pay Credit. For working seniors, may have to give the smaller one back.
- 7. First \$2,400 of 2009 Unemployment Compensation is tax free.**
- 8. Hope Education Credit expanded.** For 2009 and 2010, credit expanded to 100% of first \$2,000, and 25% of the next \$2,000. Applies to tuition AND NOW course materials, computers. Phaseout starts at \$80,000 (\$160,000 if joint). **Residential Energy Credit.** This had ended 12/31/07. For purchases from 01/01/09-12/31/10, \$500 2007 maximum was raised to \$1,500 with expanded rules. NO CREDIT for purchases in 2008! More info at www.energystar.gov/taxcredits.
- 9. Child Tax Credit of \$1,000 per child changed.** Under prior law, any amount not used to pay the federal income tax was REFUNDED ONLY if 15% of earned income covered this credit. For 2009 and 2010, any amount not used to pay the federal income tax is REFUNDED ONLY if 15% of earned income of a lower amount covered this credit. This means more of the Child Tax credit can be refunded when there is earned income (wages).
- 10. Earned Income Tax Credit increased.** For 2009 and 2010, is increased, phaseout ranges are broadened for taxpayers with 3 or more children, and for joint filers. The maximum EITC is increased by \$639 for taxpayers with 3 or more children.

WARNING: Seek qualified tax advice for application to individual circumstances.

What's the Difference?

Grants, Tax Credits, Loan Guarantees, and Tax Deductions

Not all business incentives are the same. There are **SIGNIFICANT DIFFERENCES**. Here's a brief overview of the differences. These incentives are listed in the order of which are generally most beneficial to the businessman.

1. **GRANTS** are the most beneficial to the businessman. A grant is a payment under some development program to a businessman to start, expand, or relocate under a program. A grant normally doesn't have to be paid back. Dollar-for-Dollar, a grant can be used to offset expenses. These funds do not have to come out of the business person's pocket (or purse).
 2. **INCOME TAX OR PROPERTY TAX CREDITS** are almost as beneficial to the businessperson. These credits are direct reductions in the taxes due on the business profits or property taxes. Usually limited to 50% or less of the program expense or less, these can be used to offset the taxes which would be paid.
 3. **LOANS AND GUARANTEES** are loan programs by banks and government agencies to assist the businessman to start, expand, or relocate the business. Often, this is necessary to provide funds to accomplish the business purpose.
 4. **TAX DEDUCTIONS** are offsets to otherwise taxable business receipts. Their benefit to the businessman depends on what tax bracket the business is in.
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What Incentives Are Still Available to a Businessman?

The following incentives are still available to aid in the startup of a new business or in its expansion:

() **Work Opportunity Tax Credit**

The WOTC is one tool in a diverse toolbox of flexible strategies designed to help move people from welfare into gainful employment and obtain on-the-job experience. It joins other tax credits, education, and workforce training programs that help American workers with barriers to employment prepare for good jobs; ease their transition from job to job; benefit from the creation of effective regional economic development strategies; and create high performance workplaces.

PROGRAM OUTCOMES: During Fiscal Year 2007, over 633,000 certifications were issued by the state workforce agencies, and this figure is growing every year.

UPDATE: On May 25, 2007, the President signed into law the *Small Business and Work Opportunity Tax Act of 2007* (P.L. 110-28). This legislation extends the WOTC Program through August 31, 2011. This Act and the *Tax-Relief and Health Care Act of 2006* (P. L. 109-432) signed into law on December 20, 2006, amend certain target group definitions, introduce new provisions that expand and streamline the WOTC Program, and make it easier for the business sector to participate. For example, P.L. 109-432 eliminated the Welfare-to-Work Tax Credit (WtWTC) by merging it into the WOTC and making the *Long-term TANF Recipient* another WOTC target group.

WHAT'S NEW: The following statutory changes --introduced by P.L. 110-28 -- apply to new hires who begin work for an employer after May 25, 2007 and before September 1, 2011: the WOTC has been extended to cover individuals who begin to work for an employer before September 1, 2011, the Qualified Veteran group was expanded to include certain "disabled veterans," and the High-Risk Youth group was renamed and is now called: "Designated Community Resident." Its definition was expanded.

The changes introduced by P.L. 109-432 apply retroactively to individuals who began to work for an employer after December 31, 2005. They are as follows: the earnings test for ex-felons was eliminated; the maximum age for food stamp recipients was increased; the certification request filing deadline was increased; the welfare-to-work provisions were merged into the WOTC; **The consolidated WOTC for hiring most target group members can now be as much as:**

- \$2,400 for each new adult hire,
- \$1,200 for each new summer youth hire,
- \$4,800 for each new disabled veteran hire, and
- \$9,000 **for each new long-term family assistance recipient hired over a two-year period.**

Find it in DOL at <http://www.doleta.gov/business/incentives/opptax/3/9/2009>

WHAT NEW HIRES CAN QUALIFY EMPLOYERS FOR THE WOTC?

The new employee must belong to one of the following nine WOTC target groups:

- **Long-term TANF Recipient.** A member of a family that: Received or recently received Temporary Assistance to Needy Families (TANF) payments for at least 18 consecutive months ending on the hiring date, **or** Received TANF payments for any 18 months (whether or not consecutive) beginning after August 5, 1997, and the earliest 18-month period beginning after August 5, 1997 ended during the past 2 years, **or** Stopped being eligible for TANF payments during the past 2 years because federal or state law limited the maximum time those payments could be made.
- **Other TANF Recipient.** A member of a family that is receiving or recently received TANF benefits for any 9-month period during the 18-month period ending on the hiring date;
- **Qualified Food Stamp Recipient.** An 18-39 year old member of a family that received Food Stamps for the past 6 months, or received Food Stamps for at least 3 of the past 5 months;
- **Designated Community Resident.** An 18-39 year old resident of one of the federally designated Empowerment Zones (EZs), Enterprise Communities (ECs), Renewal Communities (RCs), and for individuals who begin to work for an employer after May 25, 2007, this High-Risk Youth group has been renamed "Designated Community Resident" and expanded to include residents of Rural Renewal Counties;
Note: All Round I Enterprise Communities (ECs) including enhanced Enterprise Communities expired on December 31, 2004. Round II ECs are still in existence as are all the EZs; **Summer Youth Employee.** A 16-17 year old EZ/EC or RC resident hired between May 1 and September 15; **Note:** All Round I Enterprise Communities (ECs) including Opportunity Tax Credit, enhanced Enterprise Communities expired on December 31, 2004. Round II ECs are still in existence as are all the EZs;
- **Qualified Veteran.** A veteran who is a member of a family that is receiving or recently received Food Stamps for at least a 3-month period during the past 15 months; and for individuals who begin to work for an employer after May 25, 2007, the veteran group is expanded to include "disabled veterans" who are entitled to compensation for a service - connected disability **and** who, during the one-year ending on the hiring date, were: a) discharged or released from active duty in the U.S Armed Forces, **or** b) unemployed for a period or periods totaling at least 6 months. The first-year wages taken into account for these "disabled veterans" are capped at \$12,000;
- **Vocational Rehabilitation Referral.** An individual who completed or is completing rehabilitative services from a State certified agency, an Employment Network, or the U.S. Department of Veterans Affairs;
- **Qualified Ex-Felon.** An individual who has been convicted of a felony and has a hiring date which is not more than one year after the last date on which he was so convicted or released from prison;
- **SSI Recipient.** A recipient of Supplemental Security Income (SSI) benefits for any month ending during the past 60 day period ending on the hire date.

MINIMUM EMPLOYMENT OR RETENTION PERIOD. All new adult employees must work a minimum of 120 or 400 hours. Individuals hired as Summer Youth employees must work at least 90 days, between May 1 and September 15, before an employer is eligible to claim the tax credit. The WOTC amount an employer may claim depends on the hours the employee works. The credit is 25% of qualified first-year wages for those employed at least 120 hours but fewer than 400 hours and 40% for those employed 400 hours or more.

HOW CAN EMPLOYERS PARTICIPATE IN THE WOTC? To receive certification that a new employee qualifies the employer for this tax credit, the employer must:

1. Complete page one of IRS Form 8850 by the day the job offer is made.
2. Complete page 2 of IRS Form 8850 after the individual is hired.
3. Complete either the one page ETA Form 9061 or Form 9062 as appropriate. For example:

If the new employee has already been conditionally certified as belonging to a WOTC target group by a state workforce agency (SWA) or participating agency, complete the bottom part of ETA Form 9062, sign and date it, **or**

If the new employee has not been conditionally certified, the employer and the new employee must complete, sign and date ETA Form 9061.

4. Mail the completed and signed IRS and ETA forms to the employer's state workforce agency within 28 days after the employee's employment-start date for all individuals who begin work for an employer on or after January 1, 2007. (To find the address of the SWA in your state consult the Directory of State Coordinators below).

The Work Opportunity Tax Credit Pre-Screening Notice and Certification Request, and its Instructions, can be downloaded from <http://www.irs.gov>.

FOR MORE INFORMATION ABOUT THE WOTC: Call or visit your local State WOTC Coordinator, **or** Call the U.S. Department of Labor Regional WOTC Coordinator nearest you, **or** For information about EZ/EC/RC locations, visit the U.S. Department of Housing and Urban Development (HUD's) Web site at <http://www.hud.gov/cr> or call 1-800-998-9999.

Other incentives include the following:

- () 1. Empowerment Zone Employment Credit. Receive up to \$3,000 for every employee who lives and works in an Empowerment Zone. Refer to IRS Publication 954.
- () 2. Section 179 Deduction for new equipment.
- () 3. The selection of a business form (Proprietor, Partnership, Corporation, S-Corporation, LLC, or a combination of these) to maximize the tax effects.
- () 4. 60% Gross Income Exclusion for capital gains on qualified small business stock in a business located in an empowerment zone IF the stock is held more than 5 years.
- () 5. Tax incentives are available to businesses of all sizes in Renewal Communities to encourage businesses to open, expand, and hire local residents. Incentives include employment credits, a 0% tax on capital gains, accelerated depreciation through Commercial Revitalization Deductions, and others.
- () 6. Section 108 Federal Loan Guarantees for community development.
- () 7. Illinois Tax Credits under the Economic Development for a Growing Economy program (EDGE).
- () 8. Additional Illinois Tax Credits and Sales Tax Exemptions under the Illinois High Impact Business Program (HIB).
- () 9. Illinois Community Service Block Grant Loan Programs for small businesses in exchange for job creating and employment of low income individuals.
- () 10. Illinois Treasurer's Employee Illinois program for employers who create jobs.

- () 11. Development Corporation Participation Loan Programs for Chicago and Cook County.
- () 12. Free (or almost free) Technical assistance for employers from the following:
- Internal Revenue Small Business Division.
 - SBA in conjunction with SCORE.
 - City of Chicago Department of Community Development.
 - Local College Business Development units (at College of DuPage, Southern Illinois University, and Governor's State University, as examples).
 - Business Plan templates downloaded for free from Illinois Department of Commerce and Economic Opportunity.
 - www.en.wikipedia.org – the free on-line encyclopedia has lots of useful information on financial ratio analysis for the businessman.
 - Quicken is a low cost business tool for maintaining a business's financial records . It's more expensive cousin (QuickBooks) is FOR ACCOUNTANTS ONLY.
- () 13. Under Illinois Department of Commerce and Economic Opportunity:
- () a. Illinois Manufacturing Modernization Loan Program.
 - () b. Minority, Women, and Disabled Loan Program for businesses under 500 employees.
 - () c. Enterprise Zone Loan Participation Programs for businesses under 500 employees .
 - () d. Revolving Line of credit Loan Program for businesses under 500 employees.
 - () e. Rural Micro Business Participation Loan Program for business under 5 employees.
 - () f. Illinois Tax Increment Financing for local governments to promote local businesses.
- () 14. Under the SBA for:
- () a. Express Loans up to \$350,000.
 - () b. Export Working Capital Program providing loans to exporters.
 - () c. Illinois Capital Access Program (CAP).
 - () d. Illinois Section 504 Loan and 7(a) Guarantee (Community Express) programs.
 - () e. International Trade Loan Program.
 - () f. Micro Loans (under \$35,000, average is \$13,000).
 - () g. Prequalification Loan Program to assist in creating the business plan.
- () 15. Cost Segregation Depreciation Adjustment. There are significant depreciation increases for adjustments when using an engineering study to recomputed useful lives of real estate assets to a shorter period. See IRS Publication 334, instructions for IRS Form 3115, and go to the website: www.bak.costsegserve.com for more information.
- () 16. Domestic Production Activities Deduction of 6% for 2007-2009, then 9%.
- () 17. Enterprise Zone, River Edge Development Zone, and High Impact Business -- Dividend Subtractions for Illinois Income Tax. (See Abbott Labs, for example.)
- () 18. Business Start Up Cost Amortization. Business start-up and organizational costs are generally capital expenditures. However, you can elect to deduct up to \$5,000 of business start-up and \$5,000 of organizational costs paid or incurred after October 22, 2004. See IRS Pub. 535.

What Will Make a Successful Businessman in this Troubled Economy?

A successful businessman should have as many of the following traits as possible:

- a) **Think ahead.** Always thinking ahead several months? What will business conditions be like a few months ahead? How can I prepare for the upcoming events?
- b) **Know the competition.** Who are my competitors? What are their strengths and weaknesses? How can I make my business more competitive?
- c) **Know the customers.** Who are my customers? What are they looking for? What are they not getting? How can I be there to serve them?
- d) **Know the technology.** Know what tools, systems, or equipment is being used to serve customers. Use these more efficiently.
- e) **Know the employees.** What are the employee strengths and weaknesses? How can I make these employees more productive and effective?
- f) **Control the business costs.** Don't overspend just to get tax deductions. Control employee overtime, watch for employee and customer thefts. Pretend cost reductions are your road to profits. THEY ARE!
- g) **Control your business receivables and inventory.** When they get old, your business will suffer significantly.
- h) **Seek out clients or customers.** Don't sit waiting for customers to come to you. Go to them. Ask for their business. Get to know what they want. Give them unexpected great service!
- i) **Network with your peers, and others.** Learn from others mistakes. Don't repeat them. Learn from other businessmen in other lines of business. Seek additional opinions from advisors.
- j) **Challenge yourself.** Bite off more than you can chew. Take some risks when you can see the reward. Don't be afraid to learn new things.
- k) **Do your homework.** Spending some time to do research, can save a lot of future mistakes. Ask: What makes other competitors successful? What makes them fail?
- l) **Set goals – Short Term, Intermediate, and Long Term goals.** Write these down for yourself. Include dates and numbers, so that you can tell if you are reaching these goals.
- m) **Act decisively, but be ready to adjust to reach your targets.** It's hard to plan everything out from the beginning. Use a "Ready, Fire, Aim, Fire Again" approach.

Have a good time! Enjoy your challenges and your triumphs with your friends and family. Make some time for them. Give back to your community. Thank your Creator for the talents and gifts you have received.

GO TO www.illinoisaccountants.com to download the full 21 page "RESOURCE GUIDE" chart with much more details, phone numbers, forms, code citations, and web sites.

FIND AN ACCOUNTANT AT www.illinoisaccountants.com or call 1-800-222-2270 to reach the Independent Accountants Association of Illinois.

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