

Starting Your Own Business
A Series for Budding Entrepreneurs
Financial Considerations



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There are a number of things that you, as the business owner, should consider in the area of finances. Items like: do you need a business line of credit (yes), drawing a salary versus making a draw from your corporation, do you write off your home office (no), and considerations for other expenses will be discussed.

The Business Line of Credit

It is extremely important to establish a business relationship with a local bank (as I mentioned in an earlier article on starting your company). This is a very personal choice that you must make. I will be glad to share my experience with you in my banker relationships, but what works for me, may not be the best for you.

I started a business line of credit with two local organizations – one was an American Express line of credit available to small businesses through Costco, the second was through the Redstone Federal Credit Union. If you noticed – I do not have a business line of credit with a local bank. I used to have a corporate account and line of credit with a local bank, but I was able to find more reasonably priced services with American Express and Redstone, so I no longer have a relationship with a local bank. Like I said, this works for me, but it may not work for you. The bottom line does stay the same – get a line of credit for as much as the lending institution will let you borrow, and start using it.

I use my line of credit each year to fund my SEP IRA – retirement account. This allows me to borrow the maximum amount of money that I can put into my SEP IRA annually, and then write off the cost of the loan (interest and all other expenses) throughout the year – hopefully with my SEP IRA growing in value more than the costs of this loan.

Both organizations have given me very cheap checking, a credit card to use to access my line of credit, and an increasing amount of money that I can borrow. While I use my line of credit only for the SEP IRA, it is available for me to use to help balance out cash flow, purchase office equipment, etc. while watching my very important cash flow.

Payroll versus Draws

While I discussed how payroll works in an earlier article, there is something called the “draw” that is available to S Corporations. When you draw a payroll check, you also pay those pesky taxes – federal, state, social security and medicare. As a business owner, you can also take a corporate draw – money – out of the corporation. When you write a draw, this amount will be taxed at your federal and state rate, but social security and medicare will not be part of this.

Back when S Corporations started, many owners would take a minimal salary while maximizing their draws. The IRS soon figured out that these people were avoiding having to pay social security and medicare taxes. Since that time, the IRS has closed that loophole, and requires S Corporations not to have the draw amount greater than the payroll amount. While you are paying yourself a reasonable monthly check, you can also

draw a matching amount of money out of the corporation that will avoid social security and medicare – a sizeable amount of monthly income when you add the two together (and allowable by the IRS).

The Home Office Write Off

One simple recommendation here about home offices – do not attempt to write these off on your taxes. This is an IRS red flag and will open you up to a potential audit. Unless you operate out of your home, in a dedicated office (not like me – I operate in my house, my customers' locations, and every coffee house in town), do not write this expense off.

Other Miscellaneous Expenses

Your CPA will be able to identify the catalog of expenses that you are eligible to deduct, and I would recommend that you take every deduction possible – and keep the detailed records to support each of these.

Corporate Car. You are entitled to a corporate car. Your choice is to buy/lease a vehicle for which you will keep track of all costs – lease or loan costs, maintenance, fuel, upkeep, etc., and charge this to your corporation. Or, you can buy a car, and charge the corporate mileage rate for business miles incurred. My CPA recommended that I purchase a car, and deduct the mileage. Since I keep my cars for a very long time, this has made much more business sense to me.

Medical Expenses. Your corporation now pays for your medical expenses. This included the monthly costs of belonging to your favorite medical plan, deductibles, drugs, eye exams, and all other medical expenses. One note on getting a medical plan in the state of Alabama. Blue Cross/Blue Shield is the only medical provider that I know that operates in this state, and all doctors accept their coverage. While you can find someone to sell you individual coverage for you and your family as a nano-business, you can also get coverage directly by going to www.bcbsal.com and register on line. If your spouse is younger than you, use your spouse as the primary recipient of services – it is cheaper this way.

I did make the mistake of filing for medical care information on the internet, and after the deluge of phone calls I received trying to get me to buy their product, I decided to stay with Blue Cross/Blue Shield because of the doctor acceptance rate. I was never really certain about who would accept any of these other plans in Alabama.

Business Entertainment. You have to spend some money to grow your business. Unfortunately, the money spent on meals and entertainment are deducted at only 50% of the actual costs. There was a time when this was 100% deductible, but those days are gone, along with cheap gasoline.

Other Expenses. The bottom line for most deductible expenses: if expenses are incurred in the operation of your business, or to help you grow your business, they are usually 100% deductible. When in doubt, ask your CPA

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