

# Give Your Micro-Sized Business Options

by Geoffrey W. Goudy, CPA

## *What if...?*

That is a frequent query posed to accounting and tax advisors. Savvy business owners, especially in times of uncertainty, give themselves practical options.

**Tax Structure.** A common misstep for self-employed business owners is operating under a trade name rather than as a legal entity, such as a limited liability company or profit corporation. For example, an LLC or Corporation (legal structure) can elect S Corporation status (tax structure) as late as September 15, 2009 with an effective start date of January 1, 2008 under certain circumstances. In other words, a business owner can determine tax structure after the prior year has come and gone.

**Retirement Plan.** Many businesses graduate from a SIMPLE or SEP to a 401k. Initial plan selection is sometimes a case of timing, sometimes a case of perceived cost savings. Don't get trapped and instead, consider opening a 401k from inception prior to December 31st for contribution eligibility and related deposit flexibility. A 401k can be a fairly powerful tax savings tool, even if parked in cash, during years of business success. For example, the maximum retirement plan contribution in 2008 for an S Corporation owner under the age of 50 with \$100,000 annual compensation would be:

SIMPLE	\$13,500
SEP	\$25,000
401k	\$40,500

**Healthcare Arrangement.** As insurance premiums rise and benefits shrink, Health Savings Accounts are gaining popularity with business owners yet the mechanics are often misunderstood. In many ways, an HSA is like a "medical" IRA with contribution no later than April 15th for deduction in the previous year. But to be eligible to contribute after the first of the year, the account must be opened prior to December 31st and a high-deductible health insurance policy must be in place. Withdrawals from the account are tax-free as long as these amounts are used for medical or dental purposes. More importantly, the contribution deduction is based on the total amount contributed (up to \$5,800 if family coverage for 2008), not the net balance in the account at the end of the year. And the remaining balance rolls forward for medical costs incurred in the future.

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