

# Operational Suggestions for Your Business Venture



By Geoffrey Goudy, C.P.A.

You've determined you engage in a legitimate canine sport-related-business, now what? May I first suggest three straightforward initial steps for your endeavor?

- Set up an LLC, corporation, or at the very least, secure a trade name.
- Obtain separate checking and credit card accounts.
- Acquire QuickBooks or Peachtree for bookkeeping purposes.

Performing these three tasks is smart business. And if you are unsure what to file with federal and state authorities or how to create your chart of accounts, then hire experts, both an attorney and a certified public accountant, to properly assist with setup. Please trust me when I state that it will likely save you money in the long run.

Whether you earn \$2,000 or \$200,000, organizing your business within legal parameters is a wise investment—even if your venture could be deemed a hobby—because a sound offense is a good defense. A number of business options are available, and in certain circumstances, they will protect your personal assets from outside litigation. Note that liability insurance is just that, insurance, and thus, not a complete or sufficient shield.

Please review the Business Entity Options chart included here. There are pros and cons for each of the listed options, although the first option is not recommended for businesses grossing more than \$25,000 in annual receipts. The best fit for your business will depend on a number of factors and your risk tolerance. If your original entity selection is not now appropriate, however, an entity change can be made in order to gain or regain advantageous tax status.

No additional tax return filing is necessary for the first two options. A separate business return is required for each of the remaining four options; however, income or loss is passed through to the individual return via a Schedule K-1 for partnerships and S Corporations. The last option has annual income taxed only at the business level.

Regardless of entity selection, do not commingle business and personal activities or funds. Obtain checking and credit card accounts separate from personal accounts. An occasional stray transaction is permissible, but frequent commingled transactions could pierce the business entity's

## Business Entity Options

Sole Proprietorship with legal trade name

Limited Liability Company — Single-member

Limited Liability Company — Multi-member

S Corporation — Single or multiple shareholders

Single-member LLC electing S Corporation status

C Corporation — Single or multiple shareholders

liability protection. Keep business activity within business accounts and personal activity within personal accounts.

An easy way to track your separate activity is to purchase an off-the-shelf computerized accounting system such as QuickBooks or Peachtree. These two programs are enhanced check registers but do permit for customer invoicing (A/R, accounts receivable), vendor billing (A/P, accounts payable), and inventory tracking. It is imperative that you understand double-entry accounting; otherwise your data file will be nothing more than garbage in, garbage out.

Therefore, some basic accounting training is advised and an hour or two with your outside accountant may be critical for your business. Especially when you consider that copies of year-end tax returns and financials are typically required by lenders; your being able to also furnish internal financial statements regarding the financial position and operating activity of your business at any point during the year will generate a positive intangible on your behalf.

Finally, I'll close with three reasons why I believe so many small businesses fail:

- **Undercapitalized**—owners take too much out or are unable to fund shortfalls
- **4 “P” mismanagement**—bad *product/service*; unacceptable *price*; poor location (*place*); and inadequate *promotion*

- **Accounting**—failure to maintain accurate and timely recordkeeping

The first two are often cited as reasons why businesses fail. Yet it is the accounting of the business, or lack thereof, which leads to equity and marketing follies. Accounting is rooted in basic math, not calculus or trigonometry, so there is no reason to fear it. And your tax return will be easy to prepare if you've allocated your business activity properly within your accounting system. Actively engage your financial advisor as questions arise. Remember, your dog jumps through hoops, shouldn't your accountant? 🐾

*I did receive an excellent question from a subscriber regarding my April article, “Does Your Hobby Qualify as a Business Venture?” that I would like to share with you. The subscriber competes and started vending agility T-shirts at the same events to cover entry fees and write off costs like hotels, meals, and mileage. I responded as follows:*

*The primary purpose of your particular business is to sell T-shirts. The venue in which you've chosen to sell them is incidental—agility trials. Therefore, you could deduct the direct expenses required to acquire then sell the T-shirts, including such items as travel and meal costs. However, deducting your ancillary canine costs, such as entry fees, would not be advised as they were not necessary to sell the T-shirts. And showing a small loss for this business venture is okay as long as the expenses incurred relate to the revenue earned.*

*Geoffrey Goudy is a certified public accountant, has been in practice for 15 years, and has participated in canine sporting events since the mid-90s. Go to [CSpotCount.com/CanineSport.asp](http://CSpotCount.com/CanineSport.asp) to learn more about or direct questions to Geoffrey and his practice.*

Separate Business Return	Income Reported on 1040	Liability Protection	Legal Setup and Maintenance	SE Tax FICA/MCARE Manipulation	Owner Wage (W-2) Payments	Owner Non-Wage Payments	Retirement Funding Opportunities
No	Schedule C	No	Simple	Very Limited	N/A	Owner Draws - Non-Taxable	Good
No	Schedule C	Yes	Simple	Very Limited	N/A	Owner Draws - Non-Taxable	Good
Yes - 1065	Schedule E, pg 2	Yes	Complex	Limited	Depends	Owner Draws - Depends	Better
Yes - 1120S	Schedule E, pg 2	Yes	Complex	Limitless	Yes	Distributions - Non-Taxable	Best
Yes - 1120S	Schedule E, pg 2	Yes	Complex	Limitless	Yes	Distributions - Non-Taxable	Best
Yes - 1120	N/A	Yes	Complex	Limitless	Yes	Dividends - Taxable	Best

\* Significant differences also exist regarding the deductibility and reporting requirements for business owner transactions: health insurance premiums, vehicle expenditures, payroll taxes and retirement plan contributions.