Business Due Diligence

As an unincorporated business owner (sole proprietorship), you should be aware of some issues that IRS will hold the owner responsible:

1) Be sure to keep all receipts for any business expense that you claim on your tax return. Without the receipt, the deduction could be disallowed. Keep these receipts for a minimum of five years.
2) In order to claim a business deduction, the expense must be “necessary and ordinary” for your particular business.
3) If you pay any individual or LLC over $600 for the year, (cumulative), you must submit a year-end 1099-Misc to that individual. The penalty for failure to file is $50 per 1099 and a possible disallowance of the deduction.
4) If you have a deduction for “meals and entertainment”, be sure to document ON THE RECEIPT the following:
   a) Name(s) of parties involved.
   b) Nature of business.
5) If you purchase any fixed assets that are expected to last more than one year, (computer, equipment, tools etc), you will need to separate these deductions from your “ordinary” expenses and depreciate over a set number of years.
6) You must maintain a mileage log to substantiate any business miles.
7) Be sure to allocate the business vrs personal percentage on the following business deductions:
   a) Cell phone use
   b) Internet use
   c) Vehicle use
   d) Computer use
8) If you have inventory, you must take a physical inventory count AT LEAST once a year, preferably at year-end.
9) If you are taking a home office deduction, you must have an EXCLUSIVE office space. That means no other use in that space, (i.e. second bedroom).
10) Do not co-mingle personal expenses with your business expenses if possible. It is a good idea to open up a bank account solely for the business as well as credit cards. This allows you to track your income and expenses in an organized manner.
11) You can be penalized in an IRS audit if your records are not in good order. STAY ORGANIZED.