SMALL BUSINESS MYTHS AND BAD PRACTICES

1. **Health insurance** – a small business is required to provide health insurance for their employees if they have fifty or more employees. To circumvent this and not pay for their employees' health insurance, some business owners form another company and split the employees between these companies. This however is a futile attempt. Smita, CPA with NumbersFigured, notes, "The government (department of HHS and the IRS) considers the companies established by the same owner as a single entity and thus have the owner pay for the health insurance of both/all the owner's companies if the total number of employees for all the companies is fifty or more. This is because the employer mandate penalty relies on 'controlled group' provisions, focusing on who controls the company - not necessarily what they do."

2. **Use tax** myth: If a business purchases goods from an out of state vendor, then the business does not have to pay sales tax. In fact, the business does have to pay sales tax. Any item that would typically be subject to sales tax would be subject to use tax if sales tax is not collected. Items that are **not** subject to sales and use tax are food, prescribed medications, electronically downloaded software, music, and books and any products that are purchased for resale.

   If you owe use tax, you can use the sales tax rate that would apply in your home state to calculate the amount of use tax that you owe. For example, if your sales tax rate is 8% then you would use this same rate (8%) to calculate your use tax for any items that you purchased and did not pay sales tax on (provided you did not have an exemption). You must report and pay use tax in the same manner that you report and pay sales tax.

3. Myth: Putting **advertising on a vehicle** automatically turns it into a company vehicle.

   Such a common business tax write-off pitfall. The thought is that if you put your company logo all over your vehicle, you have a company car. Even if your company logo is splashed on your car that you use to drive to your office, as well as your kids' school, the grocery store, that wonderful vacation trip and to the mall, then sorry, it does not count as a business tax write-off. If the vehicle is truly used for obvious business purposes, like a delivery truck, then it can be written off. A portion of the auto expenses may be tax deductible as a business expense depending on specific criteria and verifiable use for business purposes.

You may also want to be careful about those ‘marketing expenses’ as well. A business owner who purchases a speedboat and beautifully puts on his company logo all over the boat and attempts to claim the boat and it’s use as a marketing expense will not be allowed to deduct or depreciate those boat expenses. The boat is for personal purposes and putting logos on the boat to advertise your business doesn't make it a business expense.

4. Myth: **Work-related clothing** can be considered business tax write-offs.
   Not really. The IRS states that only clothes that are not suitable for everyday use, like a police officer's uniform, can be written off. When you buy a special outfit for that television appearance or that special presentation, you cannot claim the clothes as an expense.

5. Myth: For tax purposes, it doesn't matter **where your corporation's annual meeting is**.
   Ummm…, it matters,” notes Smita of NumbersFigured. “Some small businesses take a cruise, and claim that they had their 'meeting,' and claim that it was 100-percent business related to write it all off as a business expense. On looking at those nice cruise pictures and chatting with some employees, it becomes apparent that some had their kids with them and the cruise was for seven days. In many such cases, the meeting was for an hour on one day of the cruise or group vacation. In such cases, the most that can be written off would be the cost of that one-hour meeting, and only the expenses of the corporate officers.”

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