FINANCES | PROSPECTING | TAXES

If you don't have a home-based business, start one today!

The tax advantage alone can make it the best financial move you could ever make.

by **Sandy Botkin**

plus AUDIO

2181 words | 6 pages

This may be a decade of tremendous corporate profits and economic growth, but for the vast majority of North Americans, the 90's have been a dismal, uphill climb. And many economists believe that this next, new millennium won't be getting better any time soon.

Why?

Changing business and government attitudes are the reason. There has seemingly been more anti-business legislation in the last decade than in any other this century. Stronger employment and labor laws, the Age Discrimination in Employment Act, the Comprehensive Omnibus Budget Reconciliation Act (COBRA, which includes mandating health insurance for workers for a period of time after they leave employment), safety laws, much tougher laws for discharging workers, more liabilities for lawsuits, Family Leave Act, Americans with Disabilities Act (which is creating immense numbers of lawsuits), along with higher minimum wages and fringe benefits.

Just reading this list is exhausting.

While these acts have beneficial and protective aspects, they have also encouraged businesses to move their facilities. That "sucking sound" popularized by Ross Perot, is not just down to Mexico, but elsewhere as well. The result has been a dramatic loss of heavy industry in the U.S.

> ***The young and the middle-aged alike are realizing that their dream of "having a job with a company forever" is an illusion.***

Companies have been downsizing, rightsizing, and capsizing for some time now, and they continue to do so— more now than ever before.

Even the federal and state governments are getting into the act with layoffs and attrition of jobs.

In addition to all this uncertainty and mutual lack of loyalty between companies and employees, even the workers who do not keep their jobs have no guarantee of promotions due to the shrinking number of management positions. These circumstances aggravate the already tryingly long commutes in rush hour traffic and increasingly typical frustrated boss-spelled backwards, that double S-O-B.

Finally, if all this isn't bad enough, under recent tax laws employees are shafted more than ever wit h limits and thresholds for their employee deductions and higher social security tax limits. This results in more couples working than ever before and, on many occasions, working more than one job.

> ***It is now almost impossible to have only one job in the family and make ends meet! Today, many households need three incomes just to survive.***

Sadly, even having more than one job does not produce any major positive effect on most people's bank accounts. Why? Because of tax laws. This was well illustrated in 1994 by Jane Bryant Quinn in her Woman's Day article on "How to Live on One Salary."

Where The Money Goes—

Ms. Quinn's example assumed that a man was earning $40,000 per year. His wife (we will call her Lori) wasn't working. They had more month than money. (Sound familiar?) Lori subsequently got an administrative job for $15,000 per year. You would think this would improve the family's financial situation, but when Ms. Quinn examined the economics of getting this extra income, the results were startling!

Lori had to pay federal and state taxes on her new income. Since they filed jointly, the family's combined income was what established their tax bracket. She paid $4,500 in new taxes, most of which was non-deductible, for federal and state income tax.

Lori had social security withheld from her paycheck at the rate of 7.65 percent, which amounted to an additional nondeductible amount of $1,148 being extracted from her salary. She also had to commute to work 10 miles a day round trip, which is probably conservative for most people. This resulted (in 1995) in nondeductible commuting costs of $696.

Lori also had some child care expenses, which give a partial tax credit. Ms. Quinn figured that the amount spent over and beyond the tax credit was $4,250 per year.

Lori also ate out each day with colleagues, spending an average of $5 per day, five days a week. This results in a nondeductible expense of $1,250 per year. (I would love to know where she ate fore only $5!)

Now that Lori has a job, she has to have professional clothing; this means a hefty dry cleaning bill. Ms. Quinn assumed that Lori's increased expenses here amounted to an extra $1,000 per year, nondeductible, of course.

Finally, with both spouses working, Lori wasn't in the mood to cook dinner every night. They bought more convenience foods and ate out more

frequently. This resulted in increased food costs of a nondeductible $1,000 per year in minimum.

Add it all up and Lori's take home pay was a paltry $1,156 a year, for which she had to put up with a daily commute, an unpleasant boss, and corporate hassles. (See the following summary of all of these numbers, so you can do the math for yourself.)

No wonder more and more people are starting home-based businesses. In fact, there are currently an estimated 30 million people working from their homes.

This number is expected to more than triple, to 97 million, by the year 2000, and to keep on growing. This has become and will continue to be one of the greatest mass movements in the U.S.

Why a Home-Based Business Makes So Much Sense

There are many reasons why so many people are favoring home-based over traditional business.

There is no commute (unless you have a really big home), no boss, little if any chance of lawsuits, must lower overhead, no employees, (or few), and far fewer government restrictions. In fact, many of the laws previously cited don't apply to small firms with few or no employees. It is for these reasons, according to Entrepreneur magazine:

95 percent of home-based businesses succeed in their first year and achieve an average income of $50,250 per year with many earning much more.

There are really two sets of tax laws in this country. One is for employees, and it allows deductions for individual retirement accounts, 401(k)s (if you have one set up by your company), interest and property taxes on your home (which some in Congress want to do away with), and charity. Then there are the laws for home-based business people who conduct their business either full-time or part-time. They can deduct, with proper documentation, their house, their spouse, and even children (by hiring them), their business vacations, their cars, and their food with colleagues. They can also set up a pension plan that makes any government plan seem paltry by comparison.

For Lori— and for you— the meaning of all this is simple:

Lori earned $15,000 in salary as an employee, but took home only $1,156. She could have netted the entire $15,000 had she earned it in a home-based business!

This is an increase of almost 13 times her take-home pay as an employee.

Notice that Lori is not spending dramatically more money than she is currently spending. She would eat out anyway, go on trips and drive her car the same as before. By having a home-based business, however, many of their expenses become deductible. This concept is known as "redirecting expenses." With a home-based business, she can now deduct some of the expenses that she is incurring anyway.

Renegade Strategy 1:

If you don't have a home-based business, start one today!

In addition to all the benefits mentioned above, Congress will subsidize you while you are growing your home-based business. If your home-based business produces a tax loss in the first year or so, you can use that tax loss against any other income you have. It can be used against wages earned as an employee, dividends, pensions, or interest income- or you can use the loss against your spouse's earnings if you file a joint return.

If the tax loss exceeds all your income for this year, no problem. You can carry back the loss two years and get a refund from the IRS for up to the last two years of income taxes paid, or you can carry over the loss twenty years. You read it right: You can offset up to 20 years of income!

Here's an example:

Mike earns $50,000 in a job with the government. If he starts a home-based business that generates a tax loss of 10,000, he only pays tax on $40,000.

Renegade Tip:
You can never lose a properly documented business deduction.

> ***In fact, if everyone in the U.S., who is employed full-time, began a home-based business, used the strategies I suggest, each household could easily save between $2000 and $10,000 in taxes each year.***

If all employees in the U.S. did this, the tax bite of the IRS would be reduced by a whopping estimated 300 billion dollars annually. Of course, Congress would have to change the laws for this to occur.

Renegade Strategy 2:
Get LUCK— Labor Under Correct Knowledge.
Can You Succeed In a Home-Based Business?

Research has constantly shown that it's rarely the business that determines success or failure. It is usually the business owner. Why does one person succeed and another fail at the same business?

Two words— Knowledge and Action.

Some people want the benefits of having their own business, but they don't take action. The result is business failure.

Then there are the people who are always working. They take action but still fail. The reason is that they are not taking the correct actions, the knowledgeable actions that will bring the desired results. Again, business failure.

It's like drilling for oil. If you set up a drilling rig in your back yard, it is going to fail at producing oil unless your back yard is in Texas or Alaska. The same rig in a good field will produce a gusher, because it was placed where oil was known to exist.

> ***The point is, most people who get excited about starting their own home-based business do so without all the necessary knowledge.***

Consequently, many people quit before they acquire, through experience, the knowledge they need, without realizing that they are getting substantial tax breaks. This leads to another strategy....

Renegade Strategy 3:
Learn to duplicate the success of others.

Duplicating the strategy of others is much quicker and more effective than going to the school of hard knocks.

It is also known as modeling, which is well-illustrated by the way The McDonalds Corporation blazed a trail to success that many have since followed.

In the early 1950's McDonald's and other start-up companies discovered that they could grow many times faster than the conventional firms through franchising. Instead of the company investing millions of dollars to build new stores, they let independent franchises do it for them.

It seemed like a great idea, but at first no one figured out how to make it succeed on a consistent basis; therefore, the media attacked relentlessly and continually. News articles featured destitute families who had lost their life savings through franchising schemes. Virtually every state attorney general in the U.S. condemned the new marketing method. Some congressmen even tried to outlaw franchising entirely.

Over the years, however, Ray Kroc and his management team at McDonald's developed a turnkey franchise business team at McDonald's franchise. The newfound success— from the system— turned public perception of franchising around. Today, virtually every franchise business models, to some extent, the franchise business system created by McDonald's, making franchising one of the most respected ways of doing business in the world.

> ***Modeling is simply learning what other successful people have done to achieve success in a specific area, and then doing the same thing.***

Someone said that "education is the shortcut to experience." With modeling, you literally leverage your own learning with the collective years of learning through experience of many others. Modeling the success of others saves both time and money and reduces frustration and stress.

The light at the end of the tunnel, for you and millions of others today, is the financial opportunity that starting your own business offers. If you have one going already, then make sure you are enjoying the many financial advantages to which your smart choice entitles you. The tax advantage alone can make a home-based business the single best financial move you could ever make.

Sandy Botkin is a CPA, attorney and former trainer of IRS attorneys nationwide. Sandy's book, *Lower Your Taxes Big Time!,* is the best-selling tax book at Amazon.com. He lectures all over the nation on tax planning for self-employed and corporate taxpayers... he's been written up in Newsweek and many other magazines. He is also a syndicated writer and noted author of this famed tape series *"Tax Strategies for Business Professionals"* and *"Tax and Financial Strategies for Residential Real Estate."* To find out more about Sandy and his products, check out his terrific small business web site at: TaxReductionInstitute.com or E-mail us at info@taxreductioninstitute.com.

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AUDIO

FINANCES | PROSPECTING | TAXES

Underpaid and Overtaxed

"Every North American tax payer who works a full-time job and does not have a home-based business is probably overpaying taxes to the tune of $3,000 to $9,000 every year!" says Sandy Botkin, CPA, tax attorney and former IRS General Counsel. In this interview, He tells you why someone must set up a home-based business and why they should never, ever quit."

by **Sandy Botkin**

20 minute downloadable MP3

Coming soon. Not yet!

Here's why

As we went to "press" with this issue, Sandy had yet to complete a revision "forced" on him by the latest round of IRS regulations. Sandy said, it's an out of control world in the post Enron environment, and home-based business companies, their representatives AND even vendors to the industry are a particular target. Even though he'd be 'giving away' his popular prospecting program in the magazine, Sandy could face $1000's of dollars in penalties if IRS decided his material was not in compliance— and no, that's without a trial. Scary, indeed. We'll have the AUDIO for you as soon as Sandy does. (Yes, we know other people are still selling it. They'd be wise to stop....)

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