



**GREATWAYS  
TAX SERVICE, INC.**

*Great Service @ Right Ways, Since 2002*

## Greatways Rules for Great Bookkeeping

Starting a business requires understanding fundamental financial principles. Your business is a separate entity, and all expenses should benefit the business, not your personal interests. The IRS mandates that business expenses must be reasonable and necessary.

### **Key Rules to Follow:**

1. **Separate Accounts:** Open a dedicated business bank account and credit card. All business transactions should be conducted through these accounts.
2. **Initial Deposit:** Start with a \$100 deposit, labeled as "Capital."
3. **Business Funding:** If your business needs more funds, transfer money from your personal account to the business account, noting it as a "Loan from Officer."
4. **Avoid Personal Lending:** Lending business money to friends is generally not allowed unless your business is in the lending industry.
5. **Loan Agreements:** For loans from third parties, have a detailed loan agreement outlining the amount, purpose, interest rate, and terms.
6. **Keep Finances Separate:** Avoid mixing personal and business accounts. Transfer money between accounts as needed, labeling transactions as "Loan from Officer" or "Repayment of Loan."
7. **Justify Expenses:** All business expenses should be necessary and reasonable. For example, travel expenses must be directly related to business activities.
8. **Home Office Deduction:** If you have a dedicated home office space used exclusively for business, you may qualify for a home office deduction (up to \$1,500).
9. **Client Visits:** If your business requires clients to visit your home office regularly and expenses exceed \$1,500, you may claim actual expenses based on the percentage of space used for business.
10. **Owner's Draw:** As the business owner, you can withdraw profits up to your initial investment plus accumulated profits, minus depreciation. Excess withdrawals may be considered short-term capital gains.
11. **Depreciation:** When you purchase business assets, you can claim depreciation expenses on your tax return. Maintain a depreciation reserve in your business account.

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**12. Compensation for Owners/Officers:**

- **S Corporations:** Take reasonable payroll to avoid self-employment taxes.
- **LLCs:** Pay self-employment tax on profits. No payroll taxes for owners.

**13. LLC Business Structure:** LLCs pay self-employment tax on net profits, while S Corporations pay payroll taxes on owner compensation.

**14. Reasonable Salary:** Determine a reasonable salary for yourself based on industry standards and your role in the business.

**15. C Corporations:** Profits can be taken as salary or dividends. Dividends are reported on personal tax returns.

**By following these guidelines, you'll ensure sound financial practices and optimize your business's tax efficiency.**

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