

Focus: small business
Mary DiPaolo

Tax law changes help businesses

Second of two parts

Changes in current tax legislation can be used to help small business owners take full advantage of the methods available to shelter business income, and in some instances, other income.

As discussed last week, these changes relate to business owners operating as sole proprietorships filing Schedule C or partnerships filing Form 1065.

Brenda Orlando, a CPA who operates a small business accounting firm from Clarkston, said there are several ways in which small business owners can reduce their taxable income, given changes stemming from the Tax Reform Act of 1986.

Self-employed business owners can now deduct 25 percent of the amount paid for medical insurance for themselves and their family as a business expense on Schedule C.

"LAST YEAR, self-employed could deduct health insurance for employees as a business expense, but the owner's premium was an itemized deduction," Orlando said.

In order to take advantage of this change in medical insurance deductions, the owner must cover his or her employees under a non-discriminatory plan.

Overcoming the "hobby loss" rule is possible for business owners who are able to provide the IRS with proof that their business was entered into to make a profit, not as a hobby or to generate losses.

The "hobby loss" rule provides

that if a taxpayer fails to make a taxable profit from a business in three out of five consecutive years, the business is considered to be a hobby by the IRS. As such, the taxpayer would not be able to deduct any expenses in excess of the business income.

ORLANDO SAYS that under this rule, losses that cannot be deducted can be carried over and deducted in future years when the business does generate taxable income. Planning as a business owner and obtaining the necessary assistance from a qualified accountant will help avoid the presumption that your business is a hobby, he said.

Orlando also recommends that the cash basis accounting method allows more flexibility in planning income than the accrual method. Using this method means that income is not recognized until the cash is received, and expenses are not deducted until actually paid.

The overall result is to decrease taxable income from your business. But this method may not be used if your business involves inventories of goods sold to customers.

Small business owners can call Orlando at 625-7141 regarding tax questions.

Mary DiPaolo is the owner of *Market Trends*, a Farmington Hills-based business consulting firm. She is also producer and host of the cable television series, "Focus: The Small Business Environment."

datebook

- NON-PROFIT ISSUES**
Friday, Dec. 4 — "Managing the Issues" seminar from 9:30 a.m. to 4 p.m. in Troy. For non-profit service organizations. Non-member fee: \$35. Information: Curtis Willner, 225-2831. Sponsor: Michigan League for Human Services.
- CORPORATE TAX**
Friday, Dec. 4 — "Corporate Tax: What's New" offered from 8:45 a.m. to 12:15 p.m. in Troy. Fee: \$60. Four continuing professional education credits. Information: 689-8282. Sponsor: Walsh College.
- BUSINESS WOMEN**
Saturday, Dec. 5 — Renaissance City chapter of American Business Women's Association holds Entrepreneur Showcase in Detroit. Information: Carol Orange, 685-1108.
- FRANCHISE WORKSHOP**
Monday, Dec. 7 — "Pros and Cons of Franchising" workshop offered at 2080 W. Big Beaver, Troy. Free. Information: 619-8646. Sponsor: Start A Business Store.
- BUSINESS MIXER**
Tuesday, Dec. 8 — Oakland County Chamber of Commerce holiday mixer 5:30-7:30 p.m. in Bloomfield Hills. Non-member fee: \$10. Information: 644-1222.
- WELLNESS AT WORK**
Tuesday, Dec. 8 — How to establish as wellness program at the work site will be held from 8:30 a.m. to 4 p.m. in Southfield. Fee: \$175. Information: 312-8772. Sponsor: Success Development Corp.
- VENTURE CAPITAL**
Tuesday, Dec. 8 — Southeastern Michigan Venture Group meets at 8 a.m. at the Somerset Inn in Troy. Fee: \$25. Information: Ann Martyn, 779-9862.
- WOMEN IN SALED**
Tuesday, Dec. 8 — Professional Women in Sales meet at 6 p.m. at the Rotarion Inn in Farmington Hills. Non-member fee: \$20. Information: 473-2253.
- S CORPORATIONS**
Wednesday, Dec. 9 — "S Corpora-
- tions After TRA 1986" offered from 8:45 a.m. to 12:15 p.m. in Troy. Fee: \$60. Four continuing professional education credits. Information: 689-8282. Sponsor: Walsh College.
- BUY OR SELL**
Wednesday, Dec. 9 — "How to Buy or Sell a Business After the Tax Reform Act" offered 1-4:30 p.m. in Troy. Fee: \$60. Four continuing professional education credits. Information: 689-8282. Sponsor: Walsh College.
- REAL ESTATE WOMEN**
Wednesday, Dec. 9 — Commercial Real Estate Women Inc. meets at 7 p.m. at the Ramada Inn in Southfield. Non-member fee: \$15. Information: Kathleen Valenstein, 350-3338.
- PURCHASING MANAGEMENT**
Wednesday, Dec. 9 — Purchasing Management Association of Detroit meets at 6 p.m. at the Radisson Plaza Hotel in Southfield. Fee: \$17. Information: 827-8788.
- BUSINESS COMMUNICATORS**
Wednesday, Dec. 9 — International Association of Business Communicators meets. Information: 855-2288.
- PLANNING FORUM**
Wednesday, Dec. 9 — International Society for Planning and Strategic Management meets. Information: Bob Stonehouse, 244-4401.
- TRAVEL & ENTERTAINMENT**
Thursday, Dec. 10 — "Travel & Entertainment Deductions Under the New Tax Law" free tax talk offered with breakfast 7:45-8:30 a.m. in Troy. Information: Ursula Scroggs, 640-3400. Sponsor: Derridan, Kann, Seyferth & Salucci CPAs.
- CPA STAFF DEVELOPMENT**
Thursday, Dec. 10 — Michigan Association of Certified Public Accountants Administrative Staff development conference begins at 8 a.m. at the Northfield Hilton in Troy. Non-member fee: \$70.

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