

From the Heart. . .

. . . Life Skills for Today

By Sharon L. Benedict MS, ACC



Recordkeeping, Time & Taxes—what a trio!

With April comes our beautiful hill country spring time but also tax time. Do you feel like time and taxes are like east and west and never the twain shall get together? There just never seems to be enough time and there's always too much of tax tension. Then throw in recordkeeping, and you have the old adage, "Two's company but three is definitely an unwelcome crowd."

Every year my husband and I promise each other we will prepare our tax data for our CPA before March arrives. And most every year, we don't quite make it. In fact, we've had some extensions submitted on a couple occasions. Now, is that a good role model for a professional life coach?! Aren't I supposed to have to all together, all the time? Not quite, thank you.

Well, it only proves I'm human just like the rest of ya'll. So, I took a deep breath and put on some soothing music to slow down the hyper ventilating. Then I started to tackle the mound of numbers as I reconciled my love/hate relationship with recordkeeping. While moving through the numbers, I found ways to help my recordkeeping go more smoothly next year. I may even make my own personal March 1 deadline from now on.

The IRS has an email tax tip link you can sign up for at

<http://www.irs.gov/newsroom/content/0,,id=105773,00.html> . For now, here are some basic tips to

help you reconcile your love/hate recordkeeping relationship with tax time.:

- **Keep track of your personal & business receipts and other records throughout the year** to document the deductions you claim on your return. This is essential for any routine or potential surprise audit. **Be sure to house your personal & business records close by but in separate filing systems and accounts** (<http://www.irs.gov/newsroom/article/0,,id=105111,00.html>).

Specific records you may need to save:

Deductible expenses withheld from your paycheck (e.g. union dues, medical insurance premiums, or 401(k) contributions). Keep pay stubs as proof of payment.

Form W-2 and 1099

Bank statements

Brokerage and mutual fund statements

Form K-1 (for partnerships)

Sales slips

Invoices

Credit card receipts

Canceled checks or other proof of payment

Home purchase and sales agreements, closing statements, and insurance records

- **Save your tax records for at least three years. Some documents require much longer**, such as four and seven years. Records relating to a home purchase or sale, stock transactions, IRA and business or rental property should be kept longer (<http://www.irs.gov/businesses/small/article/0,,id=98575,00.html>).
- **Do not discard non-tax related records or records no longer needed for tax purposes** until you check to see if you have to keep them longer for other

purposes (e.g. insurance company or creditors may require you to keep them longer than the IRS does).

- **Keep copies of your filed tax returns for at least seven to ten years.** In some situations you should hold them indefinitely (e.g. did not file return or fraudulent submission). They will also help you with future returns with computations, and any potential amendments to prior years.

Thorough and up-to-date recordkeeping throughout the year save you time and effort at tax time when organizing and completing your return. If a paid professional does your recordkeeping and tax prep for a CPA, the records you have kept will make it much easier on the preparer and yourself. So, take on this trio with determination and a smile—and a little music on the side! And you will find creative ways to dance through tax time.

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Why Keep Your Grocery Receipts?

In the check out line, you just racked up a \$250 grocery bill. The clerk reaches out to hand you the receipt. You say, "Oh, no thanks. I never need them." Or, do you just trash the receipts as you put away your groceries? You might even say to yourself, "As long as I've got the money to buy groceries, who needs the receipt? This particularly goes for cash receipts.

If any of these statements sound familiar, maybe it's time to reconsider the impact of not knowing where your money went. This is critical for any expense whether it was for two tacos at Taco Bell for four bucks or a \$4,000 entertainment center purchase. Most of us understand the importance of keeping certain large purchase receipts for warranty and returns. Yet, it doesn't seem to be that way for items under \$500.

Keep in mind that the average American making about \$59,000 annually before taxes spends approximately \$6000 on groceries alone [Bureau of Labor Statistics, Consumer Expenditures in 2005. February 2007 report]. In one's lifetime (i.e. 85 yrs), that could amount to more than \$500,000. Just imagine, that's one-half million dollars just for groceries! So, now do you think it might be a good idea to know where your money goes?

The immense value of keeping household receipts isn't just so you know where your money is going. It has everything to do with you seeking, reaching, and achieving your life

goals and dreams. Dreams and goals must be budgeted into your every day activities and spending in order to even begin to see them come true. Life has all kinds of surprises, good and bad. So, start today to have a purposeful intention toward living your dreams and goals each day with how you spend your money. And the only way to know if you are still on the right road is through accurate, complete records of even your smallest expenditures.

As quoted in past articles, even Albert Einstein advised us that “Everything should be made as simple as possible, but not simpler.” This is not always an easy task and becomes more complex with the basics of a business. Yet, for household recordkeeping our focus should be on keeping it as simple and user friendly as possible.

Here are a few options to choose from for keeping your household receipts and encouraging you to stay on track with your dreams, goals, and budget:

- Originals filed in cabinet under category (e.g. auto, clothing, dining, groceries)
- One sheet copies of multiple purchases (same category) filed in cabinet or binder notebook under category
- A monthly scan of all receipts and digitally filed
- Electronic download or manually recorded in money management software (e.g. Quicken, Microsoft Money; this method is always very useful for creating a budget and spending report on where you are at any point in time. Yet, an actual receipt or copy will usually be required for honoring any warranty claims.)
- Bank and/or credit card statements indicating purchase (although these rarely have any details—only date, amount and payee name. It may or may not be enough to have any warranty or defective claim honored.)

Remember to keep backups of all electronic and digital records also separate from your computer in a home fire safe and bank safe deposit box. When it comes to potential audits, the value of receipts is simply that you can easily show how you got your data. They won't question your numbers. You will save yourself lots of time and headaches, as well as any adjustments or potential penalties. The labor required to file them for a year or longer is so little that it is worth it for those tax and life management times you will definitely find them helpful. So, today is a new day to start saving those little and big household receipts—as you set up a recordkeeping system for your life dreams and goals.

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Home & Business Recordkeeping Layout

Whether it's tax time or your regular bill paying day, you walk over to your space for doing bills and taxes and only see piles of paper and post-it notes hanging from the computer and phone—with a maze of floor piles you have to walk around in order to get to your desk area.

You know nothing seem to say “Hello, welcome to your organized and ready-to-get-down-to-work space.” You more than likely find your motivation for something else, at least for today. Have you had it with the piles and the loud and clear message that says, “Give up, you can't work in this mess?” So, you close the door and forget it for one more day.

Do you want to change the way you live with your current state of recordkeeping wreckage? If so, let's start with your physical space you just can't seem to cozy up to in your home or place of business.

As review from last year's article, start with an adequate space or room for a desk, computer, email program, money management and word application software program (e.g. Outlook/Outlook Express, Intuit Quicken, Microsoft Money, Word, Wordperfect), printer, ergonomic chair, guest seating, phone, book shelf, sufficient overhead and desk lighting, adequate air circulation features (windows/doors/fan/A-C). Remember, though, to invite your own presence into the space with appropriate colors, pictures, plants, etc.

Then choose an appropriate records storage system (e.g. two-drawer or four-drawer filing cabinet (file boxes can be initially used if more affordable for you right now; eventually move on to a quality filing cabinet; pendaflex hanging frame set/hanging folders; 3 tab manila folders). Include at least one file cabinet drawer for placing labeled tabs for each household recordkeeping category, tax and non-tax related—sorted by alpha, numeric, or chronological arrangements to make information easy to retrieve.

In smaller apartments and homes, people often utilize a closet for their first office space, or an extra bedroom. Whether you want to create that perfect office plan for your comfy suburban home, in your high-rise apartment or business location, certain layout essentials are needed to get started. Catherine Roseberry, writer for *Your Guide to Mobile Office Technology.About.com*, offers a variety of home office designs you can work with (website link, <http://mobileoffice.about.com/od/samplehomeofficesdesigns/ig/Home-Office-Designs/index.htm>).

In addition, here are some basic tips offered by SMART DRAW (<http://www.smartdraw.com>). Check out SMART DRAW tutorials and downloads for a variety of space layout options for personal and business. SmartDraw software not only includes many small and big office layouts but also a wealth of forms, diagrams, charts, and other valuable design options for small and large projects.

SmartDraw Tips:



TIP 1

Lighting. If your work includes a lot of face time with a computer screen, it's best to dim the fluorescents and bring in more natural and ambient light. Ideally, a table

lamp mixed with a dash of sunlight will keep your eyes, and your head, alert for the long haul.



TIP 2

Profit Before Loss. If this is your first office, it's advised to keep to a strict budget on its furnishings. It may be tempting to trick out the new digs in matching titanium desks, but wait until you get your first check for services rendered before calling in the costly designer. However, it may be a good idea to invest in a comfortable, ergonomic chair for yourself and other employees who will be spending long hours working on ways to bring in that profit.



TIP 3

Treasure Hunt. Used office furniture stores are great places to save money on standard office equipment including bookshelves, file cabinets, lighting and more. Since these are usually utility items that you can hide in the back, it doesn't matter as much if they show their age or have a ding. Also, you can find newer looking desks and accessories too, at much lower prices than new.



TIP 4

Colors. Neutral colors tend to be favorite choices for office design as they are free from distraction. Some experts contend that greens and blues are ideal colors for work areas because they induce better concentration and less strain on the eyes.

Steer away from the bright white high gloss paint - it will only create a harsh glare from any of the light coming into your office.

 **TIP 5**

Plants. Having a little greenery in the office is always a nice touch. If you are a self-described black thumb, you can research plant care companies who will come into your office and water plants for a nominal fee. Ask your neighbors, they may already employ such a service and you may get a price break as a referral. If you decide to have plants, it's important they are well-cared for because your clients will judge you on all aspects of your office, including the vibrancy of your indoor garden.

 **TIP 6**

Bigger is Sometimes Better. When deciding on how much office space you need, it could be costly down the line if you don't plan ahead today. You may only have 6 employees right now, but if everything goes according to your master plan you may have 9 by the end of next year. Securing an additional 25% more space than you actually need could pay off in the future.

 **TIP 7**

Separate Home from Work. If setting up a home office, it's important to create a distinct line between work life and home life. Ideally, have a separate phone line installed for business calls. Don't put your office in the laundry room, or all you will think about is how much laundry you still have to do. Keep the space clear of all

distractions (this includes kids toys, animal toys, home bills, etc.) so you can be as productive as possible.



TIP 8

Electrical Outlets. To be on the safe side, have a professional electrician come into your home office to survey that it has the amps necessary to operate all of your office equipment (computers, copiers, faxes, fans, scanners, lighting, etc.)



TIP 9

Neat & Pleasant. If you have clients or customers coming into your office, it's best to prepare for them in the same the way you would if you had company coming over for dinner. Your office should be free of clutter as a sign that you are organized and in control. The atmosphere should be calm and quiet so you can discuss business without distractions. Your office should also give off a clean and fresh smell. . . .



TIP 10

Ergonomics. Whether you are your only employee, or you have several, it's important to make sure that you listen to what your body (or your employee) is telling you. Neck aches, headaches, wrist aches and backaches are a few of the common complaints of working at a desk all day. These are real issues, and the faster that monitors are positioned correctly, desks are raised or lowered and lights are adjusted, the faster your most productive work can begin.

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Recordkeeping—Business Tips & Cautions

When I looked over what I wrote on this subject in two articles last year, I thought, “Now, this is good!” So, here it is again in a two-for-one package. Enjoy.

A self-employed person spends roughly an average of about 50-76 hours per year—about 1½ hours per week—on activities (familiarization w/ business, recordkeeping, and return preparation) related to filing an annual federal business tax return. Then add the time spent on other business related recordkeeping (e.g. Accounts management, opportunities, various tasks & appointment records).

Can you also believe that over two-thirds of all sole proprietorships, partnerships, and S corporations are home-based and concentrated in relatively few industries? According to the Small Business Administration (SBA), over 90 percent of home-based businesses are sole proprietorships with no employees for 90% of them.

And guess who does a big chunk of the recordkeeping? The average time spent on recordkeeping is influenced by several factors:

- Experience
- Records that are well organized, and

- Computerization

These factors can markedly lower the time and effort involved. However, the startup business has the greater burden, as federal taxes have a steep learning curve. When the owner doesn't do their recordkeeping or tax preparation but hires out, direct costs can run about \$500 for the simplest return to \$3,500 for partnerships or S corporations (particularly when employees are involved).

According to the SBA withholding tax forms are generally simple and parallel to the federal forms except for different numbers.

Yet, add the various taxes to be held and paid at various tax periods—federal, sales, use, excise, business & personal property, local fees and business taxes and state tax for *other* states (Hallelujah!). Experience plays a major role in recordkeeping. The quality and design of business records are also a very important factor in the type of paperwork generated. In addition to being accurate and complete, the records need to generate the numbers required by tax forms.

Account records should be designed to make it easy to fill out the line items of appropriate tax forms. However, a business must keep other records for basic management purposes and to obtain credits and allowable business expense deductions—keeping personal expenses separate. Some of this recordkeeping would not be tax related but still essential. There are also some who believe retrieval of needed information required for IRS filings can be obtained from a well-organized check book.

Using computers can greatly reduce the time and effort involved in recordkeeping and retrieving data. Check books can be used for small

businesses, but computer generated spreadsheets can also be a great help in keeping payroll or other more customized records—even if checks are written manually.

Much of your recordkeeping time will be on depreciation, accounts, withholding, unemployment, learning tax laws/forms, and office-in-home eligibility, and preparing and filing taxes. That's why most hire out. But if you have the skills, motivation, and discipline, involve a professional first; then consider going it alone. It will be worth the cost to get a jump start. You can also check out small business management programs at local universities and vocational schools for information and assistance.

Here are few key elements of a good business recordkeeping system:

- Business checking account (keep personal account separate)
- Pay all bills by check or electronic payment (be sure you print out automatic payment receipt; don't assume the deposit was made or cyberspace works all the time)
- Keep petty cash for small expenses; use sparingly and keep business expense documents.
- Deposit receipts often - Don't keep cash or checks lying around to tempt loose hands
- Support your entries with hard copies filed in a safe place for easy access (use your bank statements as backup documentation).

Choosing a recordkeeping system very much depends on your type of business, size, cost, and staff skill.

There are two basic types of bookkeeping methods: single entry and double entry systems. Standardized bookkeeping systems can be found in business or stationery stores. Computer recordkeeping systems are also available. The Single Entry Bookkeeping System is a simpler method of recording cash receipts and disbursements in addition to the checkbook. This system is typically used for starting small businesses.

The Double Entry Bookkeeping System combines the single entry system with additional information to provide you with a more complete picture of your business—credits & debits, cash on hand, equity in building, equipment, accounts payable, mortgages and loans. Business software programs have many useful recordkeeping features worth checking out (e.g. QuickBooks, Money).

Both systems have pros and cons. Single entry systems are easy for a new small business but do not present a complete picture of your business and actual worth. Double entry systems are more complete, provide more features, and are also easy to do but require more entry time.

As you begin to choose your own preferred recordkeeping system, here are some cautions:

- Do not lose of control over the creation and use of your records.
- Do not lose control over access.
- When using electronic & computer recordkeeping, maintain secure passwords.
- Properly store records to avoid loss of tracking capability.
- Keep one official version of your records to avoid confusion and auditing complications.
- All documents should have names of parties and dates.

- Maintain secure electronic records with backups stored in a safe deposit box to keep others from altering data.
- Keep secure backups to restore data from technology blackouts.
- If trying out a new system, make sure you have backups of old system and data so you can reinstall if you have computer database failures w/ the new system.
- Make hard copies of everything in your wallet and store with all related toll free numbers and your card numbers in safe deposit box to insure immediate notification and restoration in case of identity theft; if this happens, call all three credit reporting agencies to be placed on fraud alert w/ SS# (The numbers are: Equifax: 1 800 525 6285, Experian (formerly TRW): 1 888 397 3742, Trans Union: 1 800 680 7289; Social Security Administration (fraud line): 1 800 269 0271).
- If your business records system is somehow tied to an email program & service, take steps to ensure you're protected against viruses, Trojans and other malicious software transmitted via email, without compromising the email features you need to communicate effectively. Call your provider for details.
- Check out the IRS website for how long to keep records, <http://www.irs.gov/businesses/small/article/0,,id=98513,00.html>

Next issue for the month of May, the topic will be **Housekeeping** chores everyone loves to hate! In the meantime, check out these additional recordkeeping resources below.

IRS, <http://www.irs.gov/businesses/small/article/0,,id=98513,00.html>

US Small Business Administration, <http://search.sba.gov>
http://www.governmentguide.com/small_business.adp?id=16102151

Keeping the Books : Basic Record Keeping and Accounting for the Successful Small Business (Keeping the Books) by Linda Pinson

Self-employed Tax Solutions : Quick, Simple, Money-Saving, Audit-Proof Tax and Recordkeeping Basics for the Independent Professional by June Walker

Recordkeeping, Ethics and Law : Regulatory Models, Participant Relationships and Rights and Responsibilities in the Online World by Livia Iacovino