Chapter 1

Preparing to Use QuickBooks Simple Start

In This Chapter

- Choosing an appropriate entity form
- Installing the QuickBooks Simple Start software
- Running through the Setup Interview

I know you're eager to get started. You've got a business to run. But before you can start using QuickBooks Simple Start, you need to perform some up-front work. You need to install the software and set up the containers you'll use for your accounting.

And here's something else. Even before you do that work — the installation and setup work — you really, really should think carefully about the entity form you've chosen to use for your business. (This thinking is important even if you're already been operating for a while because the entity form you use affects that way you and I, working together like a well-oiled machine, should set up QuickBooks Simple Start.)

So, this is what we'll do (you and I is what I mean by "we") in this chapter.

I assume that you know how Windows works. If you don't, take the time to read Chapter 1 of your Windows User's Guide. Or try the appropriate edition of *Windows For Dummies* by Andy Rathbone (Wiley).

Eenie, Meenie, Minie, Moe, Chose an Entity, and You're Ready to Go

You know what's weird? Most people seem to start businesses without spending any time thinking about what form the business entity should use. For example, people start businesses as simple sole proprietorships because they don't have the time to consider the other options. Or, just as bad, people start businesses as limited liability companies (also known as LLCs) or as corporations because that's the way Uncle Carl said you do it. (They may have run into Uncle Carl at the family reunion last year.)

You shouldn't take either of these approaches, however. You should carefully think about the appropriate business entity for two reasons, one pretty big and one sort of big.

- **The Pretty Big Reason.** Choosing the right entity saves you thousands in taxes and keeps your accounting simple and straightforward. Not surprisingly, choosing the wrong entity costs you thousands in taxes and turns your accounting into a nightmare from which you never really wake up.
- **The Sort of Big Reason.** During the QuickBooks setup process, artfully described in the later chapter section titled, "Running through the Setup Interview," you'll be asked to make accounting decisions that to a great extent depend on the entity form you've chosen.

So, you and I are going to have the talk. And by doing so, you're not going to fall into the traps that most people fall into, the "Gee I never thought of that" trap or the equally disastrous trap of getting half-baked tax and legal advice from some friend or relative.

For single-owner businesses

If you own a business in its entirety, you have four choices as to the entity you can use to operate your business.

In the following sections, I describe each of these entities and then identify the big benefits and drawbacks of each. Later in this chapter, I offer some general rules that you can use to make your decision.

Sole proprietorships: Fast, easy, and risky

Sole proprietorships don't require any special effort or paperwork or even a business license. If you start a business — even selling junk on eBay that you can't get anyone to haul away — you've got a sole proprietorship. If you start doing a little consulting on the side, you've got a sole proprietorship. If you do something else to make money on your own, well, you understand, right?

Just to clarify, I'm not saying that you don't need a business license from the local government authorities to operate your business. I'm quite sure that you do. I'm just telling you that, technically speaking, you don't create a sole proprietorship by getting a business license. You create one simply by starting some business activity.

Of course, sole proprietorships do have big benefits, but there is also a big drawback. The fact that you can create a sole proprietorship on the fly represents a benefit. A big one.

Another benefit is that with a sole proprietorship, you can keep your accounting simple. For example, you can report your business profits or losses to the federal and state government on a one-page tax form. And you can skip having to do any payroll tax accounting if you're the only person working in the business.

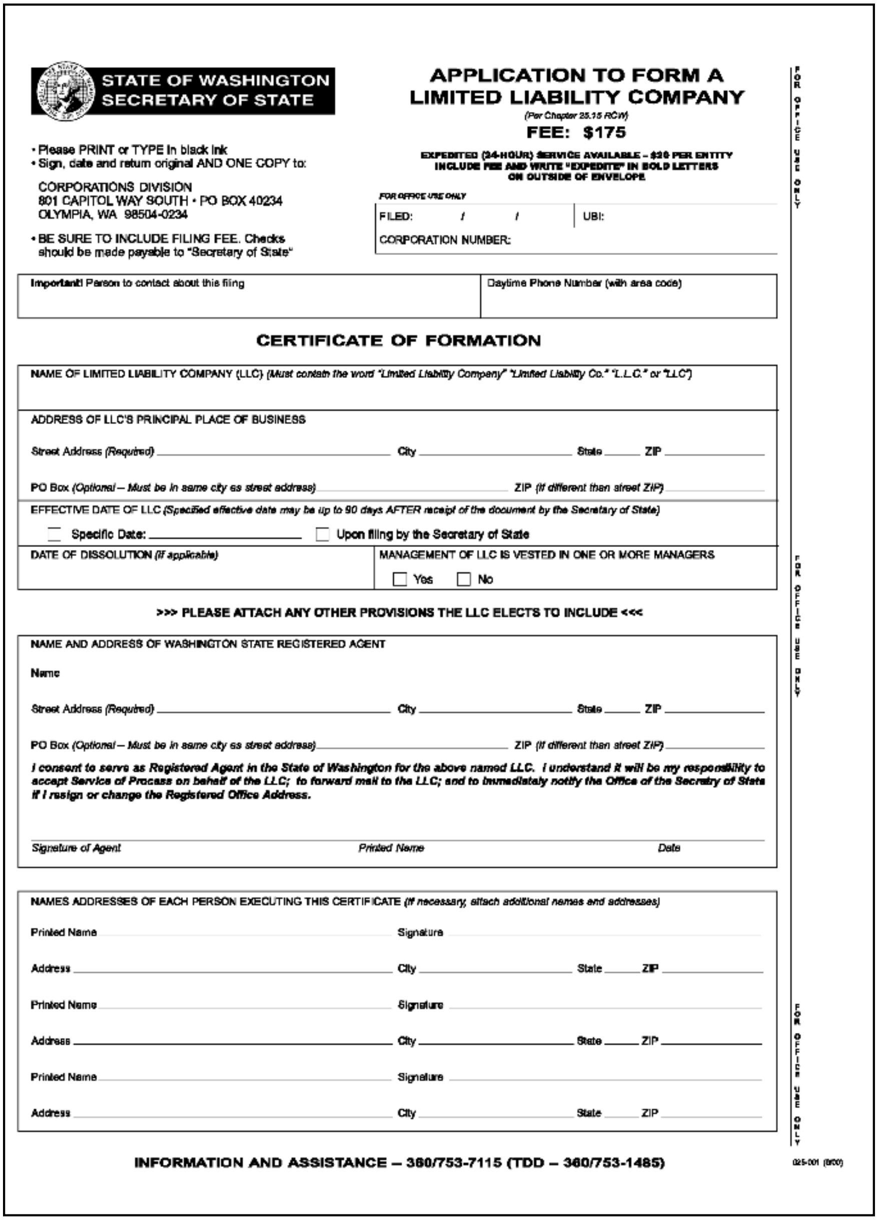
Hey, no kidding, simplicity is sweet when it comes to taxes and accounting, and it doesn't get any simpler than a sole proprietorship.

There's a big drawback with a sole proprietorship, however. And here it is: The debts of the business fall back onto the owner. In other words, if the business borrows $25,000 from the bank and then can't pay the money back, you, the owner have *unlimited liability* — you will have to pick up the tab. Ouch.

Single-member LLCs: Flexible safety

Single-member *limited liability companies,* or LLCs, get created when someone files articles of organization with the appropriate state government office. In Washington state where I live, for example, one files the form shown in Figure 1-1. Basically, you fill the blanks, write a check for $175 (state fees vary), and send the check and completed form to the Washington state Secretary of State. A few days (or a few weeks) later, you get an official looking document that tells you that your LLC exists.

Single-member LLCs deliver three big benefits to the small business owner. First, a single-member LLC (and other types of LLCs, too) limits your liability. In the previous section, I discuss how sole proprietorships work, that the owner of a sole proprietorship is ultimately responsible for business debt. LLCs don't work that way. If the owner can't pay a business debt, the LLC creditor can't look automatically to the LLC's owner or owners.



STATE OF WASHINGTON
SECRETARY OF STATE

APPLICATION TO FORM A
LIMITED LIABILITY COMPANY
(Per Chapter 25.15 RCW)
FEE: $175

EXPEDITED (24-HOUR) SERVICE AVAILABLE – $20 PER ENTITY
INCLUDE FEE AND WRITE "EXPEDITE" IN BOLD LETTERS
ON OUTSIDE OF ENVELOPE

• Please PRINT or TYPE in black ink
• Sign, date and return original AND ONE COPY to:

CORPORATIONS DIVISION
801 CAPITOL WAY SOUTH • PO BOX 40234
OLYMPIA, WA 98504-0234

• BE SURE TO INCLUDE FILING FEE. Checks should be made payable to "Secretary of State"

FOR OFFICE USE ONLY
FILED: / / UBI:
CORPORATION NUMBER:

FOR OFFICE USE ONLY

Important! Person to contact about this filing | Daytime Phone Number (with area code)

CERTIFICATE OF FORMATION

NAME OF LIMITED LIABILITY COMPANY (LLC) *(Must contain the word "Limited Liability Company" "Limited Liability Co." "L.L.C." or "LLC")*

ADDRESS OF LLC'S PRINCIPAL PLACE OF BUSINESS

Street Address *(Required)* ____ City ____ State ____ ZIP ____

PO Box *(Optional – Must be in same city as street address)* ____ ZIP *(if different than street ZIP)* ____

EFFECTIVE DATE OF LLC *(Specified effective date may be up to 90 days AFTER receipt of the document by the Secretary of State)*

☐ Specific Date: ____ ☐ Upon filing by the Secretary of State

DATE OF DISSOLUTION *(If applicable)*

MANAGEMENT OF LLC IS VESTED IN ONE OR MORE MANAGERS
☐ Yes ☐ No

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>>> PLEASE ATTACH ANY OTHER PROVISIONS THE LLC ELECTS TO INCLUDE <<<

NAME AND ADDRESS OF WASHINGTON STATE REGISTERED AGENT

Name

Street Address *(Required)* ____ City ____ State ____ ZIP ____

PO Box *(Optional – Must be in same city as street address)* ____ ZIP *(if different than street ZIP)* ____

I consent to serve as Registered Agent in the State of Washington for the above named LLC. I understand it will be my responsibility to accept Service of Process on behalf of the LLC; to forward mail to the LLC; and to immediately notify the Office of the Secretary of State if I resign or change the Registered Office Address.

Signature of Agent *Printed Name* *Date*

NAMES ADDRESSES OF EACH PERSON EXECUTING THIS CERTIFICATE *(If necessary, attach additional names and addresses)*

Printed Name ____ Signature ____
Address ____ City ____ State ____ ZIP ____
Printed Name ____ Signature ____
Address ____ City ____ State ____ ZIP ____
Printed Name ____ Signature ____
Address ____ City ____ State ____ ZIP ____

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INFORMATION AND ASSISTANCE – 360/753-7115 (TDD – 360/753-1485)

025-001 (8/00)

Figure 1-1: The Washington State Articles of Organization form.

Because LLCs do by law limit the liability of an owner, business creditors (especially for new businesses) often won't loan the business money without first getting the owner to provide a personal guarantee. In effect, that personal guarantee trumps the liability protection offered by the LLC. Also, the

LLC liability protection (and corporate liability protection as well) often won't protect a business owner from what's called *tort liability.* For example, if you've got a roofing business and, by accident, you drop a hammer on someone's head, you're liable for that accident (in all probability). Even if your roofing company is an LLC. Furthermore, if some guy who works for you drops a hammer on someone's head, well, the LLC might not protect you from that liability.

Here's a second benefit that single-member LLCs deliver: It turns out that LLCs are chameleons for tax purposes. In other words, for purposes of reporting and paying your business income taxes, an LLC can be pretty much anything you want it to be. For example, even though your LLC is an LLC and gives you liability protection, the IRS happily treats it as a sole proprietorship (which will keep your accounting easy). Or if you want instead to have the LLC treated as a C corporation or an S corporation (two choices we'll talk about in the next sections), you can do that, too.

You tell the IRS how you want an LLC to be treated for tax purposes by using a special 8832 form (see Figure 1-2).

I need to also mention a quick third benefit, the less red tape and paperwork benefit. Let me back up a bit, though, by saying that corporations, an entity form that has been around for more than a century, also provide for limited liability. But, unfortunately, corporations also require a certain amount of legal fiddle-faddling. With a corporation, for example, you should have regular board of director meetings. And you should have annual stockholders meetings. An LLC doesn't require this extra work, however. In other words, with an LLC, you get the same liability limitation that a corporation provides. But you get to simplify your paperwork and red tape.

As far as I'm concerned, there are only two drawbacks — both minor. First, either you need to be able to fill out a simple form (see Figure 1-1 again) or you have to pay an attorney $1,000 to fill the form out. Second, you have to pay the state a one-time setup fee (of about $200, but the amount varies by state) and you have to pay (potentially) annual LLC fees. (These can actually be significant in some states like California.)

TIP

I think having an attorney do your LLC paperwork and setup is a good idea. I really do. If you have an attorney do it, the paperwork will get done right. You'll also get to ask all sorts of useful questions about how the liability protection really works and how one gets out of jury duty. However, if you're on such a limited budget that you can't afford an attorney — and so the choice is no LLC or a do-it-yourself LLC — hey, if it was me, I'd fill out the form myself. (I'd also get and read a book on how to set up your own LLC.)

Form **8832**
(Rev. September 2002)
Department of the Treasury
Internal Revenue Service

Entity Classification Election

OMB No. 1545-1516

Type or Print

Name of entity | EIN ▶

Number, street, and room or suite no. If a P.O. box, see instructions.

City or town, state, and ZIP code. If a foreign address, enter city, province or state, postal code and country.

1 **Type of election** (see instructions):

a ☐ Initial classification by a newly-formed entity.

b ☐ Change in current classification.

2 **Form of entity** (see instructions):

a ☐ A domestic eligible entity electing to be classified as an association taxable as a corporation.

b ☐ A domestic eligible entity electing to be classified as a partnership.

c ☐ A domestic eligible entity with a single owner electing to be disregarded as a separate entity.

d ☐ A foreign eligible entity electing to be classified as an association taxable as a corporation.

e ☐ A foreign eligible entity electing to be classified as a partnership.

f ☐ A foreign eligible entity with a single owner electing to be disregarded as a separate entity.

3 **Disregarded entity information** (see instructions):

a Name of owner ▶

b Identifying number of owner ▶

c Country of organization of entity electing to be disregarded (if foreign) ▶

4 Election is to be effective beginning (month, day, year) (see instructions) . . . . ▶ / /

5 Name and title of person whom the IRS may call for more information | 6 That person's telephone number ( )

Consent Statement and Signature(s) (see instructions)

Under penalties of perjury, I (we) declare that I (we) consent to the election of the above-named entity to be classified as indicated above, and that I (we) have examined this consent statement, and to the best of my (our) knowledge and belief, it is true, correct, and complete. If I am an officer, manager, or member signing for all members of the entity, I further declare that I am authorized to execute this consent statement on their behalf.

Signature(s)	Date	Title

For Paperwork Reduction Act Notice, see page 4. Cat. No. 22598R Form **8832** (Rev. 9-2002)

Figure 1-2: Form 8832 tells the IRS how your LLC should be treated for tax purposes.

C corporations: The traditional form

C corporations, which are just regular old corporations treated as corporations for tax purposes, sort of work like LLCs. You create a C corporation by filing articles of incorporation with the appropriate state government office.

In Washington state, for example, you file the articles with the Secretary of State. As with an LLC, you also send in a check. A few days (or weeks) later, you get an official looking document that tells you your corporation exists.

C corporations deliver three big benefits to small businesses. First, C corporations provide the same liability protection as LLCs. So that's cool. Second, C corporations can provide their employees with generous nontaxable fringe benefits (even employees who own the corporation) as long as the corporation isn't discriminating in favor of highly paid employees or owners. Third, C corporations separate the tax accounting of the business from the tax accounting of the owners. If a corporation makes money, that by itself doesn't affect the shareholders who own the corporation. Similarly, if a corporation loses money, that by itself, doesn't affect the shareholders. This Chinese wall element of the corporation often keeps the owners' (and the business's) finances simpler.

C corporations present some problems to small businesses, however. I've already mentioned that you encounter a certain amount of legal paperwork and red tape (that's a bummer). Any corporation complicates your tax accounting and payroll. Finally, you have to pay two taxes on the business profits if you operate as a C corporation.

This double-taxation thing can be confusing. Suppose that you've got a little corporation that makes, after paying all your expenses but before paying yourself a salary, $90,000. Further assume that you want that $90,000. Bad. So, here's the way that corporation tax accounting works. You can pay out as wages to yourself whatever portion of that $90,000 represents a fair salary to you. For example, if a guy who does your job makes $45,000 a year, you can pay $45,000 of the $90,000 as wages (to yourself). You'll personally get taxed on the wages. But the corporation will get to take a $45,000 deduction on its corporate tax return. If the corporation starts with $90,000 and then deducts $45,000 of shareholder salary, the corporation still has corporate profits of $45,000. And it's this remaining $45,000 that will get taxed twice. First, for example, the corporation will pay federal and state corporate income taxes on the $45,000. (You can figure these will run about $10,000.) This will leave $35,000. But if the corporation pays this $35,000 out to you (as a dividend, say), you'll have to pay personal income taxes on the $35,000. (You can figure these taxes will run another $10,000.) See the double taxation? It's the same $45,000 of profit, but the corporation pays taxes . . . and then the shareholder pays taxes.

S corporations: Complicated tax-saving machines

S corporations are regular old corporations that have made a special tax accounting election that lets them escape from the double-taxation I talk about in the previous paragraph. You make this election using a special form (see Figure 1-3).

Form **2553**
(Rev. December 2002)
Department of the Treasury
Internal Revenue Service

Election by a Small Business Corporation

(Under section 1362 of the Internal Revenue Code)

► See Parts II and III on back and the separate instructions.

► **The corporation may either send or fax this form to the IRS. See page 2 of the instructions.**

OMB No. 1545-0146

Notes: 1. ***Do not** file **Form 1120S**, U.S. Income Tax Return for an S Corporation, for any tax year before the year the election takes effect.*
2. *This election to be an S corporation can be accepted only if all the tests are met under **Who May Elect** on page 1 of the instructions; all shareholders have signed the consent statement; and the exact name and address of the corporation and other required form information are provided.*
3. *If the corporation was in existence before the effective date of this election, see **Taxes an S Corporation May Owe** on page 1 of the instructions.*

Part I **Election Information**

Please Type or Print	Name of corporation (see instructions)	**A Employer identification number**
	Number, street, and room or suite no. (If a P.O. box, see instructions.)	B Date incorporated
	City or town, state, and ZIP code	C State of incorporation

D Check the applicable box(es) if the corporation, after applying for the EIN shown in **A** above, changed its name ☐ or address ☐

E Election is to be effective for tax year beginning (month, day, year) . . . . ► / /

F Name and title of officer or legal representative who the IRS may call for more information

G Telephone number of officer or legal representative ( )

H If this election takes effect for the first tax year the corporation exists, enter month, day, and year of the **earliest** of the following: (1) date the corporation first had shareholders, (2) date the corporation first had assets, or (3) date the corporation began doing business . . . . ► / /

I Selected tax year: Annual return will be filed for tax year ending (month and day) ►..............................

If the tax year ends on any date other than December 31, except for a 52–53-week tax year ending with reference to the month of December, you **must** complete Part II on the back. If the date you enter is the ending date of a 52–53-week tax year, write "52–53-week year" to the right of the date.

J Name and address of each shareholder; shareholder's spouse having a community property interest in the corporation's stock; and each tenant in common, joint tenant, and tenant by the entirety. (A husband and wife (and their estates) are counted as one shareholder in determining the number of shareholders without regard to the manner in which the stock is owned.)	K Shareholders' Consent Statement. Under penalties of perjury, we declare that we consent to the election of the above-named corporation to be an S corporation under section 1362(a) and that we have examined this consent statement, including accompanying schedules and statements, and to the best of our knowledge and belief, it is true, correct, and complete. We understand our consent is binding and may not be withdrawn after the corporation has made a valid election. (Shareholders sign and date below.)		L Stock owned		**M** Social security number or employer identification number (see instructions)	**N** Shareholder's tax year ends (month and day)
	Signature	Date	Number of shares	Dates acquired		

Under penalties of perjury, I declare that I have examined this election, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature of officer ► **Title ►** **Date ►**

For Paperwork Reduction Act Notice, see page 4 of the instructions. Cat. No. 18629R Form **2553** (Rev. 12-2002)

Figure 1-3: Form 2553 tells the IRS you want to make the S corporation election.

Except for the actual S election, S corporations resemble C corporations. You set up an S corporation in the same way that you set up a C corporation. You have all the same paperwork and red tape headaches with an S corporation that you have with a C. You also have to file a corporate income tax return and put shareholder employees on the payroll. But S corporations deliver a couple of pretty sweet tax savings. First, S corporations aren't subject to corporate income tax (except in some special circumstances that don't apply if you immediately elect S status upon setting up the corporation). So there's no double-taxation worry with an S corporation. (We just talked about this in the section, "C corporations: The traditional form".)

But there's another benefit of operating as an S corporation. S corporations can often be used to save business owners from self-employment taxes. If you're a sole proprietor or a single-member LLC operating for tax purposes as a sole proprietor, you pay not only income taxes on your business profits but also self-employment taxes on your business profits. If you make $90,000, for example, you'll pay roughly $13,500 in self-employment taxes. (These taxes take the place of the Social Security and Medicare taxes that you would have paid had you kept that job you didn't like.)

Now, there's no way to get out from under these taxes if you're a sole proprietor. And, actually, partners in partnerships suffer from the same self-employment tax burden. But S corporations can sometimes be used to save self-employment taxes. What if, for example, you make $90,000 but incorporate and then immediately elect "S" status. In that case, the corporation will have to pay Social Security and Medicare taxes on the wages the corporation pays you. But not on the dividend the corporation pays you. If the corporation pays you $45,000 of wages and $45,000 of dividends, the corporation will pay roughly $6,750 in Social Security and Medicare taxes.

See the savings? One way you pay $13,500 in self-employment taxes. One way you (or actually, your corporation) pays $6,750 in Social Security and Medicare taxes.

The only trick with the self-employment tax savings gambit is that your salary must be reasonable. You can't pick a number out of thin air. And you can't simply set the salary to zero. (I recommend to my clients, for example, that they look up Bureau of Labor Statistics or Department of Commerce data on actual salaries paid to employees working a job like the one they do.)

So, S corporations are pretty cool for small businesses.

General rules for single-owner businesses

Based on the characteristics of sole proprietorship, single-member LLCs, and corporations, here are my traditional rules for small businesses:

1. If you've got a very small business — a few thousand in profits each year, for example — I think you go with a plain vanilla sole proprietorship. Sure, liability limitation would be nice. But the extra accounting and legal costs aren't, to my small, struggling mind, worth it.

2. If you've a small business that's making more than a few thousand in profits in year (or you plan for the business to make more than a few thousand in profits at some point), take the time and spend the money to set up a single-member LLC. But don't tell the IRS you want the LLC to be treated as a corporation. By telling the IRS nothing about the LLC — specifically by not filing the 8832 form shown in Figure 1-2), the LLC will be treated according to the default rules, which means for tax purposes, it'll be treated as a sole proprietorship. This keeps the accounting easy. But you get the limited liability protection you deserve.
3. If you've got a small business that's making in profits some multiple of what the business can fairly pay you as a salary, set up shop as a single-member LLC and then (with an attorney's or accountant's help) correctly file forms 8832 and 2553 (see Figure 1-2 and 1-3) so that your business is treated as an S corporation. You'll probably pay some extra taxes and more to get your tax return prepared. But you should end up with thousands of dollars in self-employment tax savings.
4. If you've got a good little business and, unfortunately, find yourself in a personal situation where you or a member of your family incurs frequent and large medical expenses, set up shop as a single-member LLC and then (with an attorney's or accountant's help) file a form 8832 to turn the business into a C corporation. When you do this, ask your attorney or accountant to help you set up a Sec. 105(b) medical reimbursement plan for employees. You'll pay slightly more in taxes and accountant's fees, but you'll be able to deduct all of your family's medical expenses.

TIP

Health insurance costs of self-employed people are 100 percent deductible no matter what entity form they choose for their businesses. So the preceding suggestion really concerns healthcare costs that aren't covered by a standard medical insurance policy. Unfortunately, uninsured healthcare costs might often be case where you or someone else in your family has a serious chronic illness.

For multiple-owner businesses

If you own a business with another person, you have four choices as to the entity you can use to operate your business. In the following sections, I describe each of these entities and then identify the big benefits and drawbacks of each. After that discussion, I offer some rules that you can use to nail down your choices.

Partnerships: The worst of all possible worlds

Partnerships, technically called general partnerships, form when two or more people team up in some profit-making venture or activity. In a sense, then, partnership creation occurs just as automatically as does sole proprietorship creation. And you might think that seems like a good idea.

I don't think, however, that the "fast and easy" or automatic creation feature can be called a benefit of partnerships. The reason is that in a partnership, each partner is personally liable for the business debts of the partnership. Partners may also have responsibilities to the partnership and their partners. What's more, partnership taxes and accounting are as complicated as corporate taxes and accounting.

Multiple-member LLCs: The new way to partner

Multiple-member LLCs are LLCs with multiple owners, or members. Sometimes, these multiple-member LLCs have one class or category of members, so they work like a regular partnership. Other times, these multiple-member LLCs have members who are managing members and members who are nonmanaging members.

Multiple-member LLCs get created when someone files an articles of organization form with the appropriate state government office. Earlier in the chapter in Figure 1-1, I showed a copy of the Washington state form that one files to set up an LLC. As I mention in that discussion, you fill the form's blanks, write a check, and then send the check and completed form to the appropriate state official. A few days or weeks later, you get an official looking document that tells you your LLC exists.

As with single-member LLCs, multiple-member LLCs deliver three big benefits to small business owners. First, the LLC limits your liability. If a sole proprietorship or general partnership can't pay some business debt, the owner or owners must pay. Or the owner who's got some money must pay. With a multiple-member LLC, however, if the LLC can't pay a business debt, the LLC creditor typically can't look to the LLC's owner or owners for payment.

WARNING!

As noted earlier, because LLCs do by law limit the liability of an owner, business creditors often won't loan the business money without first getting the owner to provide a personal guarantee — and that means the owners lose liability protection for that specific liability. What's more, LLC liability protection often won't protect a business owner from tort liability.

Here's a second benefit that multiple-member LLCs deliver: For purposes of reporting and paying your business income taxes, a multiple-member LLC can be a partnership, a corporation or even (in some cases) an S corporation. Even though your LLC is an LLC and gives you liability protection, the IRS is happy to treat it as a partnership. Or as a C corporation. Or as an S corporation. As I note earlier in the chapter, you tell the IRS how you want an LLC to be treated for tax purposes by using a special 8832 form (see Figure 1-2).

A third benefit of LLCs, at least as compared to corporations that also provide for limited liability, is that LLCs require less red tape and paperwork. With a corporation, for example, you should have regular board of directors meetings and annual stockholders meetings. An LLC doesn't require this extra work, however. So, with an LLC, you get the same liability limitation that a corporation provides but with simplified paperwork and red tape.

The two drawbacks of a multiple-member LLC are that you need to spend some money on legal fees by hiring a good attorney to help you through the process. Now, you may have read the earlier chapter discussion of single-member LLCs and may even recall my shoot-from-the-hip recommendation that you consider setting up a single-member LLC by yourself. I wouldn't do that if you've got multiple members. Call me a scaredy-cat. But with partners and almost certain future partner disagreements, you want a thoughtful veteran attorney to draft ancillary documents that'll let you efficiently manage the LLC (this is called the operating agreement document) and unwind the partnership when that time comes (usually done with a buy-sell agreement document). A second, usually minor, drawback to the multiple-member LLC form is that you have to pay the state a one-time setup fee (of about $200 but the amount varies by state) and you may have to pay annual LLC fees. (These can actually be significant in some states like California.)

C corporations: The same whether one shareholder or two

I discuss how C corporations work in an earlier chapter section titled, "C corporations: The traditional form." Pretty much everything I said there about how C corporations work for single-owner businesses also applies to C corporations owned by more than one owner. Go to that section to find out more.

S corporations: They work for multiple-owner firms, too

I also discuss how S corporations work in an earlier chapter section, "S corporations: Complicated tax saving machines." Again, almost everything I said there applies to businesses with more than a single owner. Go to that section to find out more.

Let me also point out that when you start talking about multiple-owner S corporations, things can become a little tricky. For example, the IRS has rules about who can and can't become an S corporation shareholder. (U.S. citizens and permanent residents are okay, but nonresidents and partnerships aren't, for example.) The IRS also has rules about the number of people who can become shareholders. (The rules limit sort of you to 75 shareholders.) What's more, the S corporation can have only one class of stock. (You can't, for example, have two classes of stock — such as common and preferred — that treat shareholders differently.)

With multiple owners, you're probably in a situation where you ought to sit down with a good attorney and accountant and get their help in selecting the appropriate entity form for your business.

General rules for multiple-owner businesses

Based on the characteristics of partnerships, multiple-member LLCs, and corporations, here are my traditional rules for small businesses with more than one owner:

1. Don't use a general partnership — even if you've got only a very small business generating a few thousand in profits each year. A partnership for a very small business presents too many liability, tax, and accounting problems.
2. If your business is at least modestly profitable (or you plan for the business to be modestly profitable), pay an attorney to set up a multiple-member LLC. As long as you don't do anything with that form I showed in Figure 1-2, the LLC will be treated according to the default rules, which means for tax purposes, it'll be treated as a partnership. And you'll get the limited liability protection you deserve.
3. If you've got a small business that's making in profits some multiple of what the business can fairly pay you and the other owner or owners as a salary, set up shop as a multiple-member LLC and then (with an attorney's or accountant's help) correctly file forms 8832 and 2553 (see Figure 1-2 and 1-3) so that your business is treated as an S corporation. You will pay some extra taxes and accountant's bills, but you and each of your partners should end up with thousands of dollars in self-employment tax savings.

Installing QuickBooks Simple Start

Hey, you thought I forgot this book is about QuickBooks Simple Start, didn't you? Don't worry. I didn't. In fact, here's where you install QuickBooks Simple Start right now. Just follow these steps:

1. **Get the QuickBooks Simple Start CD.**

   Rip open the QuickBooks package and get out the CD (which looks exactly like the ones that play music).
2. **Insert the CD in your CD-ROM drive.**

   If you have any amount of luck, Windows recognizes that you've inserted the QuickBooks Simple Start CD and displays a window that thanks you for purchasing QuickBooks Simple Start and asks if you want to "start." You do, so click the Start button and skip to Step 6.
3. **If nothing happened when you inserted the QuickBooks Simple Start CD, open the Control Panel window.**

In Windows XP, click the Start button and then choose Control Panel. In most versions of Windows, including Windows 2000, you click the Start button and then choose Settings➪Control Panel from the Start menu. Figure 1-4 shows the Windows XP Control Panel window that appears.

4. **Start the Windows Install program.**

   In most versions of Windows, you can do this by double-clicking the Add or Remove Programs icon. When the dialog box in Figure 1-5 appears, click Add New Programs, then click the CD or Floppy button, and then follow the on-screen instructions. You need to press the Enter key several times to move through some dialog boxes. Figure 1-5, I should mention, is the Windows XP Add or Remove Programs window. If you're using some other flavor of Windows, the window looks different. But it works in roughly the same way. After you see the first QuickBooks Simple Start window, click its Start button.

5. **Tell QuickBooks how you want to get started.**

   After you click the Start button, QuickBooks Simple Start asks how you want to get started. But what it's really asking is whether you want to install the Simple Start software on your desktop computer — you would make this choice by clicking the Get Started with Desktop Edition button — or work with an online version over the Internet. You want to install the software on your desktop computer, so click the Get Started with Desktop Edition button.

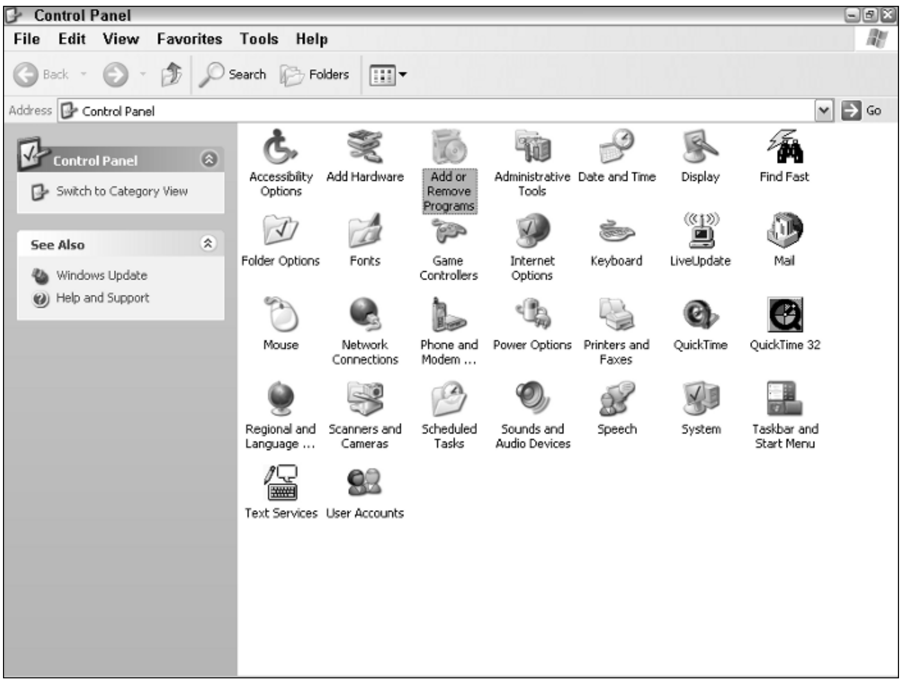

Figure 1-4: The Control Panel window.

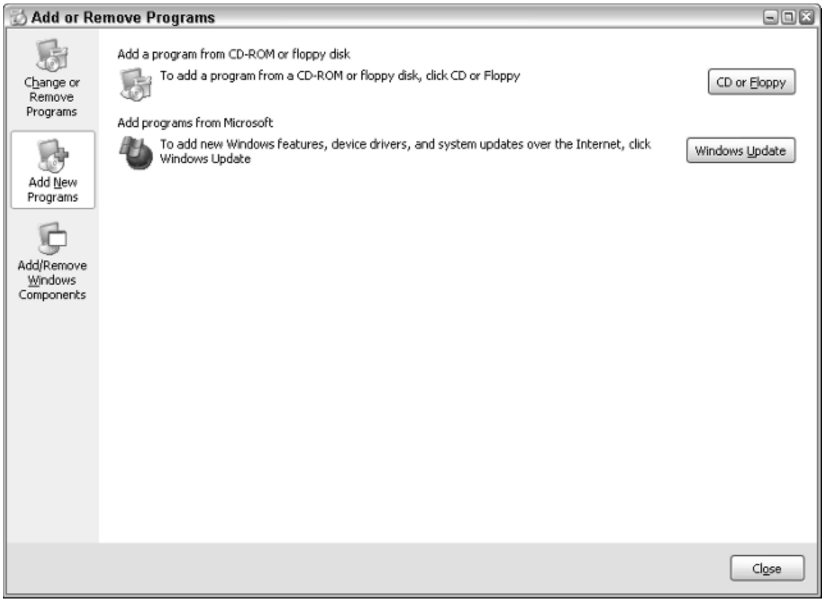

Figure 1-5: The Add or Remove Programs window in Windows XP Professional.

The QuickBooks setup process starts, and the InstallShield Wizard window appears (Figure 1-6). Enter the CD key code (which is printed on a yellow sticker on the back of the CD sleeve) and click Next to begin the installation process. Then follow the on-screen instructions. If you have a question about an installation option, just accept the QuickBooks suggestion by pressing Enter. (The suggested, or default, installation options are fine for 999 out of 1,000 users.)

Figure 1-6: The InstallShield Wizard.

6. **Click Next to begin copying the files.**

   QuickBooks gives you a summary of your installation choices and then tells you to click Next to begin copying the files. Do so. The QuickBooks installation program slowly begins extracting files from the CD. This process is slow. Think "glacier sliding down the side of a mountain." As the installation program runs, you should see a little bar that shows your progress.

   If you need to cancel the installation at any time, click Cancel. QuickBooks warns you that the setup is incomplete. That's okay — just start the setup from scratch next time around.

7. **After the Install program finishes, click Restart.**

   Congratulations. You're finished with the installation. You have a new item on the Programs menu and probably new shortcuts on your desktop.

TIP

If you're installing QuickBooks Simple Start on a computer running Windows NT, Windows 2000, or Windows XP Professional, you need to log on as either the administrator or a user with administrator rights. With these operating systems, Windows security features require an administrator to install the QuickBooks Simple Start program.

Running through the Setup Interview

After you know what entity form your business will use and have the Quick-Books Simple Start software installed, you're ready to set up the QuickBooks data file. The data file is the container that QuickBooks Simple Start uses to hold your financial information.

Step-by-step help for the Setup Interview

To run through the Setup Interview, you start the QuickBooks Simple Start program and then, when prompted by QuickBooks, step through the Setup Interview.

Specifically, you take the following steps:

1. **Start QuickBooks Simple Start.**

   Before you begin the interview, you have to start QuickBooks Simple Start. To do so, double-click the QuickBooks Simple Start icon, which appears on the Windows desktop. Or, choose Start⇨Programs and then click the menu choices that lead to QuickBooks. (For example, I choose Start⇨QuickBooks Simple Start Edition.)

   The real fun begins at this point. The Setup Interview starts automatically, displaying the dialog box shown in Figure 1-7.

Figure 1-7: The Setup Interview dialog box.

If you're not starting QuickBooks for the first time but you want to step through the Setup Interview to set up a new company anyway, choose File➪New Company.

2. **Describe your business.**

   To begin the interview, click the Next button. The Setup Interview displays a window that asks you to enter your company's name and address. Fill in the blanks with the requested information.

3. **Identify your entity form choice.**

   To continue with the interview, click Next. The Setup Interview displays a window (not shown) that asks which entity form you've chosen for your business. Here's how you answer the question that this dialog box asks:

   - If you've chosen to operate as a sole proprietorship or as a single-member LLC that will be treated for tax purposes as a sole proprietorship, check the Sole Proprietorship button.
   - If you've chosen to operate as a partnership or as a multiple-member LLC that will be treated as a partnership for income tax purposes, check the Partnership or Limited Liability Company button.
   - If you've chosen to operate as an S corporation (this might be because you incorporated and then elected S status or because you set up an LLC and then double-elected S status), check the S corporation button.
   - If you've chosen to operate as a C corporation (this might be because you incorporate or setup an LLC and then elected to be treated as a corporation), check the Corporation button.

- If you're using QuickBooks Simple Start for a church or a nonprofit organization of some type, of course, check the Non-Profit Organization button.

One final point about this entity choice confusion: If you're currently operating as a sole proprietorship or a single-member LLC that's treated for income tax purposes as a sole proprietorship and you know that someday soon you'll make the elections necessary to turn the entity into a corporation, check the button that corresponds to the entity you'll become, not the entity form that you're currently using.

4. **Describe how you'll bill your customers.**

Click Next to move to the Setup Interview dialog box that asks how you'll bill your customers (see Figure 1-8). Mostly, you just answer the questions that the Setup Interview asks. But let me throw in my own two-cents' worth.

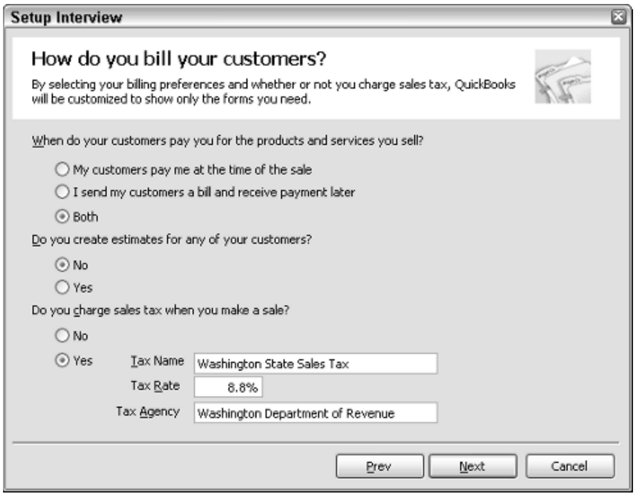

Figure 1-8: The Setup Interview dialog box that collects billing information.

- **Describe whether people pay in cash or on time.** See that first question about whether people pay you at the time of sale (presumably with cash or a check) or later after you invoice them? You need to answer this question by selecting the appropriate button. QuickBooks uses your question to this question to determine whether you need to print sales receipts (because yours is a point-of-sale business) or invoices (because you bill people and then they pay you later) or both.
- **Specify whether you create estimates for customers.** See that second question? The one that asks whether you create estimates — essentially "best guess" invoices — for your customers? You need to answer this question, too. If you do create (or you want to create) estimates, select Yes. If you don't, select No.

- **Indicate whether your customers are subject to sales tax.** If they are, click the Yes button. If you click the Yes button, you also need to label the sales tax you pay, specify the tax rate, and name the tax agency to which you remit the sales taxes. In Figure 1-9, for example, I provided the information necessary to put a line on receipts and invoices for Washington state sales tax. The sales tax equals 8.8 percent of the invoice or receipt total. And one remits the sales taxes (on a monthly or quarterly basis) to the Washington State Department of Revenue.

5. **Create the QuickBooks company file.**

   Click Next to move to the next Setup Interview dialog box. This dialog box informs you that QuickBooks is on the verge of creating the company file that'll store your accounting information. All you need to do is click Next. So click Next. When you do, QuickBooks displays the Save As dialog box (see Figure 1-9). Use this dialog box to name the QuickBooks company file. You simply enter the filename into the file name box and you click Save.

   You can also use the Save In box (shown at the top of the Save As dialog box) to specify the folder location that you want QuickBooks to use for the company file. But don't do it. I implore you. QuickBooks can lose track of where you store the company file if you put it someplace crazy and then create more than one company file. You don't want to lose your company file.

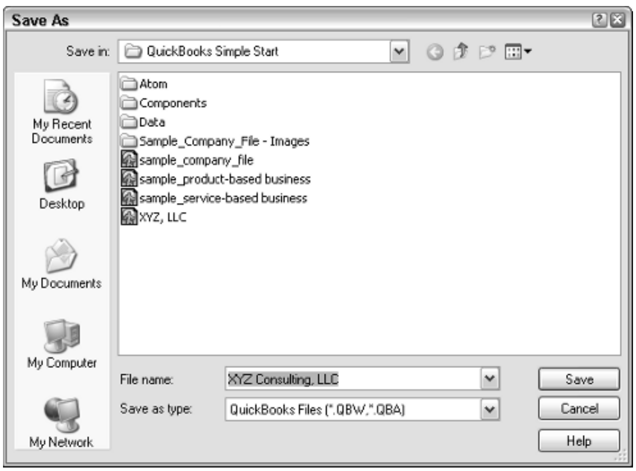

Figure 1-9: Ah yes. The Save As dialog box.

After QuickBooks Simple Start creates the company file, it displays the usual QuickBooks Simple Start program window (see Figure 1-10). This is the same window you'll see from now on whenever you start QuickBooks.

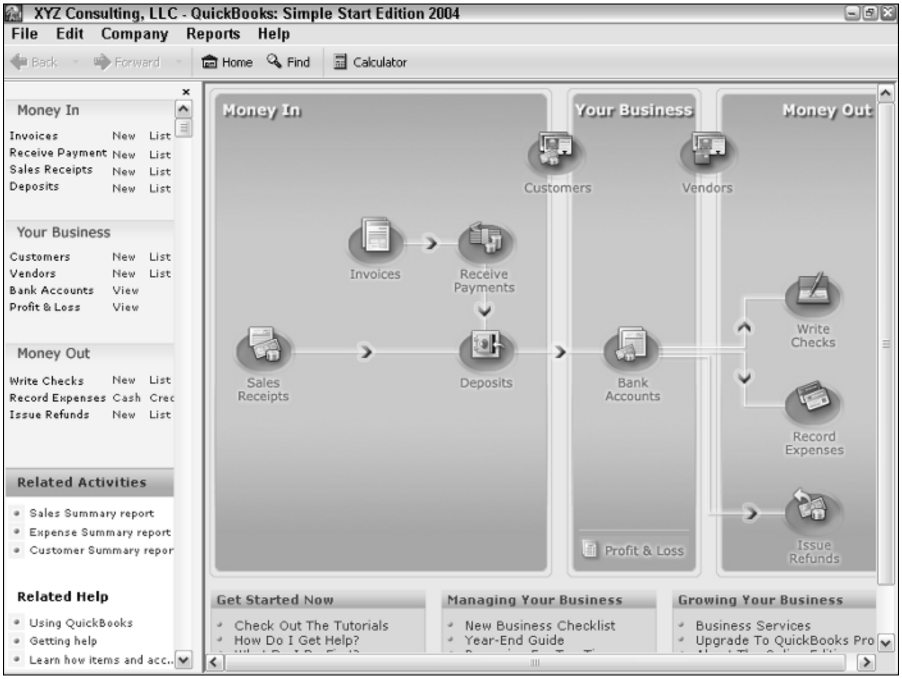

Figure 1-10: The QuickBooks Simple Start program window.

After QuickBooks Simple Start starts, you may also see a message box that asks whether you want to register QuickBooks. You can use the product roughly a couple dozen times and then — whammo — either you register it or you can't use it. I don't like being forced to do something, but getting worked up about having to register QuickBooks is a waste of time. The simplest option is to just register. Here's how: When QuickBooks displays the message box that asks whether you want to register, click Online to register online or Phone to register over the phone. If you go with the phone option, QuickBooks displays another dialog box that gives you a telephone number to call and provides a space for you to enter your registration number. You can also register by choosing the File➪Register QuickBooks: Simple Start.

Should you get your accountant's help?

I think that most people should be able to set up QuickBooks Simple Start on their own. The trickiest part of this stuff isn't the software installation or setup — it's the entity choice stuff. And I tried to give you good detailed information on that at the very start of this chapter on that topic.

Having said that, however, if you've already been operating business for some time and have a current balance sheet and a year-to-date income statement, I suggest that you at least think about getting your accountant's help. Your accountant can do a much better job of giving you advice that may be specific to your situation. (Maybe you two can talk about the S election stuff.) And in many cases, your accountant can help you load into QuickBooks Simple Start the current balance sheet and year-to-date income statement information. What's more, your accountant probably knows your business and can keep you from making a terrible mess of things, just in case you don't follow my directions carefully.

If you do call upon your accountant to help you with the tasks in this chapter, I want to tell the accountant a couple of things. Tell your accountant that you're using QuickBooks Simple Start. And then when he says or she says, "Hmmmphf. I don't know the Simple Start program," tell them, "Ah, yeah you do. Simple Start is the same thing as regular QuickBooks . . . It's just that some of the features are hidden so it's easier for small business people."