

Organize Your Expenses To Help Your Business

Yearlong categorization of expenses related to your footcare practice will benefit you in preparation for determining income tax

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The end of the year is a great time to review your business operations. A critical part of this is tax preparation for your hoof-care practice. How prepared are you for reporting your business expenses?

In this column, I will focus on the United States-based farrier's needs for federal tax preparedness. There are various ways to document business expenses for federal income tax purposes. One way is to organize expenses by categories listed in Schedule C of the Federal Individual Income Tax Return (Form 1040), the Federal Partnership Return (Form 1065) and the Corporate Tax Return (Form 1140). The specific categories you decide to use will greatly depend on the particular information needs and how specific you want to be in your farrier business.

Where Are Your Expenses?

What expenses do you incur during a year? Here is a list of categorized subjects that you should consider. Utilizing these will save you time and simplify paper work come reporting time.

1. **Advertising Expenses.** These expenses include the resources you utilize to promote your business, such as business cards, printed fliers, local newspaper listings or online display ads.

2. **Automobile Expenses.** These are all of the operational costs for your business use of your vehicle, including gasoline, oil, maintenance, repairs and gasoline taxes. It goes well beyond repairs or the frequent fill-up, as these expenses also cover vehicle licenses and registrations, inspection fees, depreciation and any other operational costs.

3. **Bank Service Charges.** This category includes all charges, interest and fees made to a bank related to your business checking or other business bank accounts.

4. **Casualty Losses.** These include damage to property related to your business caused by a sudden, unexpected or unusual event.
5. **Charitable Contributions.** If related to a C-corporation, these qualify. Contributions are not business expenses for owners of a sole proprietorship, partnership, LLC or S corporation, but rather are personal deductions.
6. **Clothing Expenses.** These include your footwear, uniforms or protective clothing.
7. **Commissions, Contracted Labor, Wages and Salaries.** These expenses are paid to others, or any other payment for services rendered, including payments to employees, sub-contractor and independent contractor farriers.
8. **Communication Expenses.** These expenses cover methods of communicating with customers, vendors and colleagues including Internet service provider fees, fax, mobile and landline telephones.
9. **Dues and Publication Expenses.** These include membership dues for trade and professional organizations, and business organizations such as the chamber of commerce if such membership promotes one's personal business interests. Your subscription to *American Farriers Journal* falls under this category.
10. **Education Expenses.** These cover books, seminars, conventions, lectures or any other professional development courses.
11. **Equipment Expenses.** This includes expenses for any equipment with a useful life in your business for **less than** a year. If that span covers more than a year, the expense is considered a capital (long-term) asset.
12. **Insurance Expenses.** These expenses include insurance premiums you pay for any business-related insurance policies.
13. **Licenses And Dues.** These cover expenses used to obtain and maintain professional licenses and dues for professional groups, organizations or clubs.
14. **Legal And Professional Fees.** These would cover any use of an attorney, accountant or other professional service provider that is directly related to your business.
15. **Meals And Entertainment Expenses.** These cover ordinary and necessary expenses to entertain a client, customer, colleague or employee.

16. **Postage And Mailing Expenses.** These expenses are for shipping and mailing business correspondence, including the cost of renting a mailbox at your local post office.

17. **Rent Expenses.** These payments are for office space and business equipment used within that space. Office space is quite rare among our industry, but space rented for forging would fall under this.

18. **Repairs and Maintenance Expenses.** These are for any upkeep that maintains your equipment in a normal operating condition including nipper rebuilds and rasp sharpening.

19. **Supplies.** I'm sure many of horseshoers will fill this category. These are for all of those items that are typically used in the provision of your farrier services such as shoes, nails, pads, studs, etc.

20. **Taxes.** These cover the taxes you pay in the course of running your footcare business.

21. **Travel, Toll and Parking.** These expenses are for business travel for the purpose that benefits your farrier business.

22. **Utilities.** These expenses cover the utilities paid for related to a home office, shop or storage shed, including electric, water, gas or fuel.

Don't Wait To Categorize

You will never thoroughly document your business expenses without organization. Whenever you incur a business expense, write or input the expense immediately. Do not let your receipts stockpile. Keep your receipts to be documented in one area and store the documented ones in a storage cabinet or box.

If utilizing paper-tracking systems, then I would suggest you purchase a business expense ledger book with enough columns to document your expenses. Once you document the expense into the ledger, the receipt can then be stored away in a cabinet or box.

If you are utilizing business software or web-based programs, then it is rather easy to document all your business expenses into these simple categories. This makes exporting reports and transferring data into income tax software like TurboTax much easier. There also are

scanners specifically designed and programmed to document and categorize receipts. You can find several options for around \$100 that are well-rated by consumers.

Many other options exist for farriers who don't want to follow the other methods of organizing. Several companies automatically do this if you send in your receipts to them via mail, fax, e-mail or picture from your telephone. Shoeboxed.com and Lemon.com are two examples of such services. These companies will set up all your expenses into the appropriate categories so when tax time arrives, all the work is done and can be printed out. Based on a "typical" farrier practice, the cost would be \$300 annually.

Regardless which method you utilize, I cannot stress it enough that you must stay on top of this. A few minutes per day or week can save you from hours of agony come tax season.

Boxed Item:

For More Information

- Income Tax Deductions: www.taxes.about.com/od/Deductions/
- Income Tax Form 1040: www.irs.gov/uac/Forms-and-Schedules-for-Form-1040

ART: Pick up Esco's picture and the contact body copy

Pull quote: Whenever you incur a business expense, write or input the expense immediately