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The Business and Management Advisors

Business or Personal – A Lethal Combination

Stuart W. Margolis, CPA, MT and Brian L. Enverso, CPA, MT, DVA
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It is easy to get caught up in the minutia of the business world, especially if you are an owner of a printing company that runs multiple shifts around the clock. Mix into this pot the long hours, hands-on activities, juggling management styles and leadership efforts. Now combine these factors with running a family owned business. There are only 24 hours in a day. It's inevitable that something has to give. This is a breeding ground for business life impeding on personal life, where there is no longer that separation of these two distinct bodies. Business becomes personal and vice versa.

If this sounds like you, listen up. This article may save you a lot grief and anguish down the road of life. Just because you are a workaholic owner of a printing company does not mean that everything you do is business related. Although it may feel like that at times, the reality is that your personal life goes on. This article is designed to make you aware of how the IRS views business and personal activities of closely held business owners and their family members.

For years Uncle Sam's hot button has been meals and entertainment. The burden of proof is on the taxpayer to demonstrate business purpose and reasonableness. Owners and their family members that frequently eat out and pass the cost onto the business should be careful. It is one thing to eat out for the convenience of accommodating your work schedule but if it lacks business purpose, it is not deductible. The tax regulations require specific substantiation requirements to document "who, what, where, when and why".

Another area that tends to get distorted is travel and lodging. If you are too busy to take a vacation but find time to take business trips to exotic locations or frequent golf resorts, you may catch the eye of the Taxman. To maintain adequate travel records you may benefit from keeping a log. Was the trip done in the ordinary course of business and was it a necessary expense for the

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business to bear? It may be hard to explain why you had not taken a single vacation day in the last five years, yet traveled to half of the states on business trips, coincidentally accompanied by your spouse.

A big “No-No” is using a personal credit card in addition to the corporate card. This gets magnified when you code every item as a business expense. This may provide the IRS an angle into your personal checkbook. If the Company does not have a corporate card then it is imperative that you designate only one personal credit card to use specifically for business purposes. This could prevent the IRS from scrutinizing your personal records and looking for items that may be co-mingled.

Finally, if it is determined under audit that personal items were being absorbed by the Company, then deductions are denied and the individual may be assessed additional income on their personal tax return, not to mention back-tax penalties and interest. The moral of the story is that closely-held and family owned businesses are susceptible to IRS intervention if they do not keep business and personal

activities separate for tax accounting purposes.

In summary, it is important to recognize the difference between business and personal activities so that you may find yourself in hot water with Uncle Sam. In the end, the IRS weighs your evidence against the concept of “Ordinary and Necessary Business Expenses”.

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