
Why You Would Be Brain Dead Not to Start a Home-Based Business (If You Don't Already Have One)

There are really two sets of tax laws in this country. One is for employees; it allows deductions for normal employee items, such as individual retirement accounts, 401(k)s (if you have one set up by your company), interest and property taxes on your home, and charity. Then there are the laws for small and home-based business people who conduct their business either full or part time. In addition to the tax deductions employees can get, small business people can deduct, with proper documentation, their house, their spouses (by hiring them), their business vacations, their cars, and food with colleagues. They can also set up a pension plan that makes any government plan seem paltry by comparison and deduct most of their "vacation" trips if they combine them with an appropriate amount of business. (See the discussion in Chapter 3.)

Chapter Overview

- You will *never* get rich until you learn to get your taxes down to the legal minimum.
- There are two tax systems in this country—one for salaried employees, one for small/home-based business owners.
- A home-based business will make you better off than a second income.
- Traditional job security has declined over the years and will continue to do so, making home businesses more attractive.
- You will probably save \$2,000–10,000 per year by starting your own part-time business.

Lower Your Taxes—Big Time!

The example below shows how a woman named Lori, who earned a \$15,000 salary, took home only \$1,156 after she deducted all her work-related expenses. Yet she could have netted the entire \$15,000 had she earned it in a home-based business. This is an increase of almost 13 times her take-home pay as an employee.

It illustrates why having more than one job in a family does not produce any major effect on most people's bank accounts because of the tax laws. This was well illustrated by Jane Bryant Quinn in a *Woman's Day* article on "How to Live on One Salary."¹

Quinn assumed that the husband earned \$40,000 per year, which is \$3,400 per month and his wife (I'm calling her Lori) wasn't working. They had more month than money. (Sound familiar?) Lori subsequently got an administrative job for \$15,000 per year. When Quinn examined the economics of getting this extra income for the family, the results were startling!

Lori had to pay federal and state taxes on her new income. Since they filed jointly, the family's combined income was what established their tax bracket. She paid \$4,500 in new federal and state taxes, most of which were nondeductible.

Lori had Social Security withheld from her paycheck at the rate of 7.65 percent, which amounted to an additional nondeductible amount of \$1,148 being extracted from her. She also has to commute to work 10 miles a day round trip, which is probably conservative for most people. This results in nondeductible commuting costs (in 1995) of \$696.²

Lori also had child care expenses that give a partial tax credit. Quinn figured that the amount spent over and beyond the tax credit was \$4,250 per year.

Lori also ate out each day with colleagues, spending an average of \$5 per day for lunch, five days per week. This results in a nondeductible expense of \$1,250 a year.³ (I would love to know where she ate for only \$5!)

Now that Lori has a job, she has to have better clothing and much more dry cleaning. Quinn assumed that Lori's increased expenses here were an extra \$1,000 per year, nondeductible, of course.

Finally, with both spouses working, Lori wasn't in the mood to cook, somewhat akin to my own life. Thus, there were more convenience foods and more eating out. This resulted in increased food costs of a nondeductible \$1,000 per year at the minimum.

Add it all up and Lori's take-home pay was a paltry \$1,156 a year, for which she had to put up with the commute and the boss and the corporate hassles. (See the following summary of all these numbers, so you can do the math yourself.)

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Gross Income <i>LESS</i> :	\$15,000
State and Federal Taxes	-\$4,500
Social Security Taxes	-\$1,148
Car expenses (at 29 cpm—50 miles per week)	-\$ 696
Child care (net of the credit)	-\$4,250
Lunches at the job	-\$1,250
Business clothing and dry cleaning	-\$1,000
Higher food expenses (eating out, snack foods, etc.)	-\$1,000
Net take-home pay:	\$1,156

No wonder more and more people are starting up home-based and consulting businesses. In fact, according to author David D'Arcangelo, there are currently an estimated 37 million people working from their home, "representing a 20-fold increase over the last 10 years. What's more is that number is expected to grow by 15 percent annually and keep on growing!"⁴ This has become and will continue to become one of the greatest mass movements in the U.S.

If Lori started a home-based business, she would not be spending dramatically more money than she is currently spending. She would eat out anyway, go on trips, and have the same car expenses for repairs, gas, and insurance as she did before. If she has a home-based and/or consulting business, however, many of her expenses become deductible. This concept is known as "redirecting expenses." With a home-based or consulting business, she can now deduct some of the expenses that she is incurring anyway.

More Reasons to Start a Home-Based Business

In recent years, the era of large corporate profits and economic growth came to an end. Moreover, many economists believe things won't be getting better any time soon.

Remember the American Dream? You worked hard for one employer, saved your money, and retired with dignity and security. Today, young and middle-aged alike are realizing that their dream of having a job with a company forever is an illusion. Just pick up any national paper and you will see companies downsizing, rightsizing, and capsizing. (Remember Enron and WorldCom.)

Finally, if this isn't bad enough, under recent tax laws, employees are shafted more than ever with limits and thresholds for their employee deductions and higher Social Security tax limits. This results in more couples working than ever before and, on many occasions, working at more than one job. It is now almost impossible to have only one job in the family and make ends meet!



Strategy

If you don't have a home-based or small business, start one immediately!

Finally, with both spouses away from the home most of the day, we have more children fending for themselves until their parents get home and less discipline in the home. (I wonder if some of the shootings that occur in school today aren't caused, in part, because many parents aren't home to take care of their children and supervise them properly.)

The reasons so many people are going into a home-based business or becoming consultants rather than joining a traditional business are many. There is no commute (unless you have a really big home), no boss, little if any chance of lawsuits, much less overhead, and no employees or very few employees. It is for these reasons, according to *Entrepreneur Magazine*, that 95 percent of the home-based businesses succeed in their first year and achieve an average income of \$50,250 per year, with many earning much more.

I should note that, in addition to all the benefits noted above, Congress will subsidize you while you're growing your small business. If your business produces a loss in the first year or so, you can use that loss against any other income that you have. It can be used against wages earned as an employee, dividends, pensions, or interest income, or against your spouse's earnings if you filed a joint return. If the tax loss exceeds all your and your spouse's income for the year, no problem. You can carry back the loss two years and get a refund from the IRS (and from some states) for up to the last two years of income taxes paid or you can carry over the loss 20 years. You read it right: you can offset up to 20 years of income!

Example: Mike earns \$50,000 in a job with the government. If he starts a home-based business that generates a tax loss of \$10,000, he pays tax on only \$40,000.

Hot Tip

You can probably save 2,000-\$10,000 a year by starting your own part-time business.

In fact, if everyone in America who is employed full-time got a part-time business and used the strategies suggested in this book, each employee could easily reduce his or her taxes from \$2,000 to \$10,000 or more each year. If all the employees and small business people applied this information, the tax bite in the U.S. would be reduced by a whopping estimated \$300 billion each year. (Of course, Congress would have to change the laws if this occurred.)

What Types of Businesses Should I Consider?



This is one of my most frequently asked questions. Actually, starting a business is not as hard as most people think. In most cases, there is little or no licensing required and you can operate it out of your home with few or no overhead costs. The key is deciding what type of business is right for you.

The best business for most people is the one that excites them and/or about which they have substantial knowledge. Consider the things that you

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are good at or really like to do. Consider your hobbies. I know one person who became an antique dealer because he and his wife loved collecting antiques. Perhaps you like writing and want to be a freelance writer or freelance editor. Tutoring and training such as giving SAT lessons or music lessons from the home are becoming fast-growing businesses.

Many people become distributors of products or services out of their home. If you are good with people, you should also consider one of the many good network marketing companies. Why? These companies have proven products and sales literature and you usually don't have to store or finance inventory or even ship it to customers. The company does all that for you. It will even give you an account of all your sales and of all your distributors' (downline) sales. There is no overhead, such as rent and employees, so there's no liability exposure, which can occur in traditional businesses. Moreover, just about every product that you can think of is currently being marketed using the network marketing approach.

In addition, most network marketing companies provide some form of residual income that provides a continual stream of income from your distributors from year to year and month to month. Finally, you get the same or even better tax benefits with network marketing than you would with any traditional business.

The only downside to network marketing is that some of these operations are shaky. If you go this route, you want to associate with a company that has been around a while and has a proven track record of success and proven marketing programs. Many of these companies have a very high failure rate within the first two years of operation. I would recommend that you consider only companies that have been around and continuously successful for at least two years. Check out the various distributors that you want to be associated with. You want successful people who will teach you and support you. Your best friend may or may not be the ideal person.

Research has constantly shown that it is rarely the business that determines success or failure. It is usually the business owner. Why does one person succeed and another fail at the same business? Two words: *knowledge* and *action*. Some people want the benefits of having their own business, but they don't take action. The result is business failure. Then there are the people who are always working. They take action all day but still fail. The reason is that they are not taking the correct actions, the knowledgeable actions that will bring the desired results. Again, the result is business failure.

It's like drilling for oil. If you set up a drilling rig in your backyard, it's going to fail to produce oil unless your backyard is in Texas or Alaska. The same rig in a good oil field will produce a gusher because it was placed where oil was known to exist.

Strategy

Get LUCK—
Labor Under
Correct
Knowledge.

Lower Your Taxes—Big Time!

The point is that most people who start businesses or become consultants do so without all the necessary knowledge. Consequently, many people quit before they acquire through experience the knowledge that they need—and also without realizing that they are getting substantial tax breaks.

The choice between being rich and being poor, for you and for millions of others, is the opportunity that starting your own consulting or small business offers. If you have one going already, then you need to make sure that you're enjoying the many tax advantages your brilliance in so doing offers you.

Summary

- Job prospects are declining and will continue to do so.
- You will never get rich unless you get your tax affairs down to the legal minimum.
- There are two tax systems in this country: one is for employees and one is for small businesses, consultants, and home-based businesses.
- Everyone should have a home-based business immediately!

Notes

1. Jane Bryant Quinn, "How to Live on One Salary," *Woman's Day*, November 1, 1994.
2. In 1994, the IRS conservatively estimated that cars cost 29 cents per mile to own and operate. The allowed figure for 2007 is 48.5 cents per mile. This means that the automobile costs cited by Quinn are much lower than they would be today.
3. This assumes a two-week vacation.
4. David D'Arcangelo, *Wealth Starts at Home* (McGraw-Hill, 1997), p. 13.