A Quick Guide for First Time Business Owners

Your 2025 Guide

Introduction

Welcome to the 2025 Quick Guide for First Time Business Owners

Starting a business is exciting—until you realize there's more to it than just selling your product or service. Suddenly, you're responsible for taxes, bookkeeping, payroll, and keeping your finances in order. And if you don't? The IRS will be happy to remind you.

The good news? This guide will walk you through everything you need to know to keep your business financially sound—without making your head explode. Whether you're figuring out your business structure, tracking expenses, or trying to avoid an audit, we've got you covered.

Want to skip ahead? Refer to the table of contents on the next page to jump to what you need. Otherwise, let's start with the basics.

Outline

1. Business Structure
    a. **Sole Prop vs. LLC vs. Corp**
2. Accounting Set Up
    a. **Separate Bank Accounts & Credit Cards (Don't commingle funds)**
    b. **Start with Excel for Tracking**
        i. Download Free Template
    c. **When to Graduate to QuickBooks Online**
    d. **When to Hire Help**
    e. **Setting KPIs**
        i. Sales Growth
        ii. Operating Margin
        iii. Net Income
        iv. Cash
3. Taxes
    a. **Sole Proprietors**
        i. Income Tax
        ii. Self-Employment
        iii. Estimated Payments

Outline

Company Structure

Choose Wisely (or Pay for It Later)

Before you start making money, you have to decide what kind of business structure you want. And while this might sound like a boring legal formality, it actually determines how much you pay in taxes, how much personal risk you take on, and how complicated your life will be when tax season rolls around.

Sole Proprietor: The "Just Getting Started" Option

A sole proprietorship is the easiest and fastest way to start a business because, well, it doesn't require much. No official paperwork, no complicated tax filings—just you and your brilliant business idea. Congratulations, you're now self-employed!

But here's the catch: when tax time rolls around, you'll pay self-employment taxes on every dollar of profit (spoiler: it's a lot). Once you hit $50,000 to $60,000 in profit, the IRS starts looking at you like a walking ATM. That's when it's time to start thinking about an upgrade, or else you'll be handing over way more money to the government than necessary.

In short: Great for starting out. Expensive once you're successful. Have an exit plan.

Company Structure

Choose Wisely (or Pay for It Later)

LLC: The "Swiss Army Knife" of Business Structures

Most small businesses end up forming an LLC (Limited Liability Company) because it's flexible, protects your personal assets, and lets you choose how you want to be taxed.

Here's why people like LLCs:

- Limited Liability – If your business gets sued, they can't come after your personal assets (as long as you don't mix business and personal finances like a rookie).

- Tax Flexibility – Unlike a sole proprietorship, an LLC gives you options. You can stick with default taxation (like a sole proprietor), elect to be taxed as an S Corp (to save on self-employment taxes), or even go full corporate if it makes sense.

- Professionalism – Let's be real, "Bob's Plumbing, LLC" sounds more legit than just "Bob's Plumbing." Customers and clients trust businesses that have official structures.

If you're planning to grow your business beyond a side hustle, forming an LLC is usually a smart move. Just don't assume that filing the paperwork magically lowers your taxes—you'll still need to choose the right tax election to actually see savings.

Company Structure

Choose Wisely (or Pay for It Later)

Corporations: For Very Specific Situations (or People Who Like Paperwork)

If you've ever heard of "double taxation" and immediately felt a sense of dread, welcome to the world of corporations. While they make sense for larger businesses, startups seeking investors, and specific industries, they're generally not the best choice for most small business owners.

Why?

- Corporations pay taxes on their profits, and then owners pay taxes again when they take money out (hence, double taxation).
- They require a lot more paperwork and compliance. If you love board meetings, shareholder resolutions, and regulatory filings, go for it.

That being said, if you're in a very specific situation—like planning to seek venture capital funding or wanting certain tax benefits—a corporation might make sense. Just make sure you actually talk to a tax professional first, because once you go corporate, undoing it isn't as easy as clicking "delete" on your filing.

Setting Up an Accounting System

Avoid Future Headaches Now

When you're just starting out, bookkeeping might seem like a minor detail—just something you'll "figure out later." Don't do that. Future-you will not be happy when tax season rolls around, and you have a pile of mixed-up transactions and a growing sense of panic.

The good news? Setting up your accounting system the right way from the start isn't that hard, and it'll save you a ton of time and stress later.

Step 1: Separate Your Business and Personal Finances (Seriously, Do This)

Your business needs its own bank account and credit card. No exceptions.

Here's why:

- **No commingling of funds.** Business money goes in and out of the business account. Personal money stays in your personal account. If you need money from one to the other, transfer it like a responsible adult.
- **Easier bookkeeping.** When every transaction is clearly business or personal, tracking expenses is a breeze. When it's all mixed together? Have fun figuring out which Home Depot trip was for a client job and which one was for your new backyard patio.

Company Structure

Avoid Future Headaches Now

- **Protects you if you get audited.** If the IRS ever comes knocking, they'll expect clean financial records. If they see a mess of mixed-up personal and business transactions, you're asking for a headache (or worse).

Setting up a separate business account takes maybe 20 minutes. Just do it. Future-you will thank you.

Step 2: Start with Excel (Yes, Really)

If you're just getting started, you don't need fancy accounting software yet. Start by tracking transactions in Excel. It's free, simple, and works fine when you have a manageable number of transactions.

- ✅ Download a simple Excel template ***HERE***.

Track your income, track your expenses, and keep everything organized. When you're small, Excel does the job just fine.

Company Structure

Avoid Future Headaches Now

Step 3: You'll Eventually Outgrow Excel—That's When It's Time for QuickBooks

At some point, your business will get too big for Excel. You'll know it's time to switch when:

- You can't keep up—there are too many transactions, and updating your spreadsheet is turning into a full-time job.
- You don't actually know how much money you're making (or losing).
- You need to send invoices, accept credit card payments, or manage taxes efficiently.

When that happens, QuickBooks (or another accounting software) is the next step. It automates what used to take hours in Excel and gives you reports that actually tell you how your business is doing. The switch isn't painful—we promise.

Step 4: At Some Point, You'll Want to Hire Help

The reality is, you didn't start a business because you love bookkeeping. And while it's fine to handle it yourself at first, eventually, you're going to have to decide between growing your business or keeping up with your books.

Company Structure

Avoid Future Headaches Now

You'll know it's time to outsource when:

- **You're always behind.** If your books are weeks (or months) out of date, that's a problem.
- **You avoid looking at the numbers.** If your eyes glaze over whenever you try to make sense of your financials, **you're not going to make smart business decisions.**
- **You're too busy making money.** If you're spending valuable time sorting through receipts instead of closing deals or completing jobs, it's time to offload the accounting.

A good bookkeeper or accountant frees you up to focus on what you do best—running your business. And if you need help figuring out what that looks like, ***that's exactly what we do.***

Key Performance Indicators

Track Numbers That Actually Matter

Running a business means keeping an eye on more than just how much money is coming in. If you're only checking your bank balance and calling it a day, you're flying blind. The right numbers (a.k.a. Key Performance Indicators, or KPIs) tell you whether your business is growing, profitable, and, most importantly, able to survive.

Here's what you should be tracking from day one:

Sales Over Time: Is Revenue Going Up or Down?

Your revenue should, ideally, trend upward over time. If it's not, you need to know why.

Tracking sales each month gives you a clear picture of your business's trajectory. If revenue is increasing, great—just make sure you can handle the extra work (and expenses). If it's decreasing, you need to figure out what's happening before cash gets tight.

Pro Tip: If your sales swing wildly from month to month, look for seasonal patterns. Some businesses have slow months—it's normal. The key is planning for it.

Key Performance Indicators

Track Numbers That Actually Matter

Operating Margin: Are You Actually Making Money on Each Sale?

Operating margin tells you how much profit you're making after covering direct costs (a.k.a. what it actually costs you to do the work). It's calculated as:

Operating Margin = (Revenue - Direct Costs) ÷ Revenue

Direct costs include labor, materials, and anything else that goes directly into fulfilling a job. If your operating margin is low, you might be underpricing your services or overspending on labor and materials.

Pro Tip: f your operating margin is shrinking over time, something's eating into your profits. It could be rising costs, underbidding jobs, or spending too much on labor. Fix it before it becomes a bigger problem.

Net Income: The Bottom Line (Literally)

Net income is the number that tells you if your business is profitable or not. It's what's left after all expenses, including overhead, marketing, and taxes.

Key Performance Indicators

Track Numbers That Actually Matter

Why it matters:

- Tells you if you're actually making money or just working for fun.
- Helps you know how much you can reinvest into growth.
- Is the number banks and investors will look at if you ever need financing.

Pro tip: A business can survive with low net income for a while, but not forever. If your profit is razor-thin, find ways to decrease expenses or adjust pricing.

Cash: The Only Number That Really Matters When Things Go Wrong

You can survive bad months. You can survive pricing mistakes. You can survive hiring the wrong person.

But if you run out of cash, your business is done.

Cash is what keeps the lights on. It's what pays your bills, your employees, and, most importantly, you.

If you ever hear the phrase "profitable but cash-poor," that means a business is making money on paper but doesn't have enough cash flow to keep running. Don't be that business.

Pro tip: Always keep a cash reserve—ideally, enough to cover 3–6 months of expenses. It'll save you when an unexpected expense pops up or sales take a temporary dip.

Paying Taxes

Congratulations, You're Now Responsible for Funding Roads, Schools, and Probably Some Things You Don't Agree With

If there's one universal truth in business, it's this: Taxes are unavoidable. The key is understanding how they work so you're not caught off guard when the IRS comes knocking. Because trust us, they will.

The type of business structure you choose determines how you're taxed, what you owe, and whether you can save some money with the right strategy. Let's break it down.

Sole Proprietors

As a sole proprietor, you and your business are the same in the eyes of the IRS. That means all your profits are taxed as personal income, and on top of that, you'll owe self-employment tax.

Here's how to estimate what you'll owe:

- **Income Tax = Net Income × Your Effective Tax Rate** (varies by state and income level, but plan for at least 15-25%)
- **Self-Employment Tax = 15.3% of your net self-employment income, up to $168,600 in 2024**

Between income tax and self-employment tax, your total tax bill can easily land between 25% - 35% of your earnings. Yes, that's a lot. Yes, it's painful. But the worst mistake you can make is not planning for it.

Paying Taxes

Congratulations, You’re Now Responsible for Funding Roads, Schools, and Probably Some Things You Don’t Agree With

Estimated Tax Payments
Since no one is automatically withholding taxes from your income (like a regular paycheck), you have to send payments to the IRS yourself—four times a year.

Deadlines for Estimated Payments:

- **April 15**
- **June 15**
- **September 15**
- **January 15** (of the following year)

Miss these deadlines? Expect penalties. Set reminders, automate payments, or just hire an accountant to do it for you.

S Corporations: The Tax-Saving Upgrade

Sole proprietors and S Corporations pay income tax the same way. The big difference? S Corp owners can save a significant amount on self-employment tax.

Paying Taxes

Congratulations, You're Now Responsible for Funding Roads, Schools, and Probably Some Things You Don't Agree With

Here's how it works:

- As an S Corp owner, you're required to pay yourself a "reasonable salary." That means part of your income goes through payroll and gets taxed just like a regular job (Social Security + Medicare taxes).
- The remaining business profits pass through to you but AREN'T subject to self-employment tax.

How much does this save?

A well-run S Corp making $100,000 in profits (before owner salary) can save about $8,000 to $10,000 per year in self-employment taxes. If you're making a decent profit, that's real money back in your pocket instead of going to the IRS.

Want to see how much you could save? ***Try our S-Corp Tax Savings Calculator here.***

Sounds great, right? There's a catch.

Paying Taxes

Congratulations, You're Now Responsible for Funding Roads, Schools, and Probably Some Things You Don't Agree With

S Corps come with extra administrative headaches:

- You have to run payroll—no paying yourself under the table.
- You'll file a separate business tax return (Form 1120-S).
- There are stricter IRS rules on how you classify income.

For that reason, S Corps only make sense once your business profits hit at least $50,000 to $60,000 per year. If you're below that, the extra hassle probably isn't worth it.

And if you're considering making the switch? Talk to a professional before filing anything—cleaning up an S Corp mess is no fun.

C Corporations: For Specific (and Usually Larger) Businesses

C Corps aren't common for small businesses because of double taxation. What's that? The corporation pays taxes on its profits, and then you pay taxes again when you take money out. Ouch.

Paying Taxes

Congratulations, You're Now Responsible for Funding Roads, Schools, and Probably Some Things You Don't Agree With

But sometimes, a C Corp makes sense. Consider it if:

- **You're planning to raise money from investors.** Venture capitalists and private equity firms almost always require C Corps.
- **You're using a ROBS 401(k) to fund your new business.** If you're rolling over retirement funds to start your business, the IRS requires you to use a C Corp.
- **You're planning to sell the business in 5-10 years.** There are potential tax advantages here, but you'll need a solid exit strategy.

Bottom line? If you're not in one of these situations, a C Corp is probably not the best fit. Consult a professional before going down this road.

Partnerships: When Two (or More) People Own the Business

If you're going into business with someone else, a partnership might make sense. It's taxed like a sole proprietorship, but instead of one person paying all the taxes, profits and losses are split between partners.

Paying Taxes

Congratulations, You're Now Responsible for Funding Roads, Schools, and Probably Some Things You Don't Agree With

Some key things to know:

- **All net income is subject to self-employment tax,** just like a sole proprietorship.
- **Partnerships are ideal for real estate holdings** (LLCs taxed as partnerships are often used for rental properties).
- **Partnership agreements allow for flexibility in profit-sharing.** If you and a partner agree to split profits in a way that's different from your ownership percentage, a partnership lets you do that.

One important rule
A partnership requires at least two people. If one partner leaves and you're the only one left, congrats—you're now a sole proprietor.

Deductions

Keep More of Your Money (Legally, of Course)

One of the perks of running a business is getting to write off legitimate expenses and reduce your tax bill. The key word here? Legitimate. The IRS isn't exactly known for its sense of humor, so while deductions are great, you'll want to keep things clean, documented, and above board to avoid raising any red flags.

Mileage: An Easy Deduction That Adds Up Fast

If you're using a personal vehicle for business (meeting with clients, driving to supply stores, visiting job sites, etc.), track your mileage. It's worth 70 cents per mile in 2025, and those miles add up quickly.

Let's say you drive 5,000 business miles in a year—that's a $3,350 tax deduction. Not bad for doing what you were going to do anyway.

We recommend using an app like MileIQ to track your trips automatically. Because let's be real—nobody remembers to write down their odometer readings every time they hop in the car.

Home Office: Not the Gold Mine You Think It Is

Some people act like the home office deduction is the Holy Grail of tax write-offs. It's not. The IRS has cracked down hard on these deductions because people have, let's say, been a little too "creative" in claiming them.

Deductions

Keep More of Your Money (Legally, of Course)

That being said, there is a safe harbor deduction that works well. If you have a dedicated area in your home used exclusively for business, you can deduct $5 per square foot, up to 300 square feet.

That means if you have a 120 sq. ft. office in a spare bedroom, you're looking at a $600 deduction—no complicated depreciation, no excessive paperwork. Just a straightforward, easy deduction.

Important: Your "home office" must be exclusively used for business. If it doubles as your guest room, your gym, or a place to store your Peloton, it doesn't count.

Meals & Entertainment: You Can't Deduct Lunch Just Because You Exist

Yes, business meals are deductible—but only if they're actually business-related. You don't get to write off lunch just because you're alive and need to eat.

The IRS allows you to deduct 50% of meal expenses when there's a legitimate business purpose. That means:

Deductions

Keep More of Your Money (Legally, of Course)

- Meals while traveling overnight for business
- Taking a client out to discuss business (not just catching up with an old friend)
- Team meals for employee morale and team-building activities

Entertainment, on the other hand, is NOT deductible. So if you take a client to a concert or a sporting event, the meal beforehand might be deductible, but the tickets? Nope. The IRS doesn't care that you spoke about business over courtside seats.

Travel: Business Trips Are Deductible (Vacations Are Not)

Business-related travel expenses are 100% deductible, which includes:

- Hotels
- Rental cars
- Flights
- Other travel costs for work-related purposes

If you're attending a trade show, meeting clients, or traveling for a job, you can write off the costs.

Deductions

Keep More of Your Money (Legally, of Course)

But what if it’s a mix of business and personal?

Let’s say you go to a conference in Miami and decide to stay a few extra days for fun. The business portion of your trip (flights, hotel during the conference, and meals while working) is deductible. The extra beach days and piña coladas? Not so much.

Documentation: The Paper Trail That Saves You in an Audit

Nobody wants to get audited. But if you do, the difference between a stressful nightmare and a minor inconvenience comes down to one thing: documentation.

The IRS doesn’t just take your word for it. You need to prove your deductions. That means keeping:

- Receipts for all deductible expenses
- Bank statements showing business transactions
- Payroll records if you have employees
- Tax returns for at least seven years after filing

If your deduction records are a mess, you’re rolling the dice with the IRS. Keep everything organized, store digital copies of receipts, and make sure you can back up every deduction you claim.

Payroll

Because the IRS Takes This Very Seriously

Once you start paying yourself through an S Corporation or hire your first employee, you can't just Venmo them and call it a day. Payroll comes with strict rules, deadlines, and penalties—and the IRS does not mess around when it comes to payroll taxes.

If You're an S Corporation Owner, Payroll Is Mandatory

The moment you elect to be taxed as an S Corporation, the IRS expects you to pay yourself a "reasonable salary" through payroll. That means:

- You'll need to run payroll for yourself and withhold Social Security, Medicare, and income taxes just like any other employee.
- You'll also be responsible for paying the employer half of Social Security and Medicare taxes.

Skipping payroll and just taking owner distributions instead of wages? That's a great way to get audited and end up with back taxes and penalties.

Hiring Employees? Payroll Gets Even More Complicated

Once you bring on employees, payroll becomes a full-time responsibility.

Payroll

Because the IRS Takes This Very Seriously

- You must withhold and pay Social Security, Medicare, and income taxes from employees' paychecks.
- You're responsible for the employer half of Social Security and Medicare taxes.
- Payments are due either monthly or bi-weekly, depending on the size of your payroll.

And that's not all—you also have quarterly and annual payroll filings to submit. The IRS and state agencies expect these reports on time, every time.

Payroll Penalties Are No Joke

If you miss a payroll tax deadline or fail to pay correctly, the penalties are steep. The IRS considers payroll taxes "trust fund taxes"—meaning that if you withhold money from employees' wages and don't send it to the government, you could personally be held responsible.

And yes, they've gone after business owners for this even when their businesses shut down.

Payroll

Because the IRS Takes This Very Seriously

Outsource Payroll. It's Worth It.

Running payroll yourself sounds easy—until you realize there are dozens of rules, tax deadlines, and filings to keep track of. One mistake can cost you thousands in penalties.

That's why we strongly recommend outsourcing payroll to a professional payroll service. They:

- Handle withholding and tax payments automatically
- Ensure quarterly and annual payroll reports are filed correctly
- Keep you compliant with federal and state regulations

A good payroll service will pay for itself in time saved, stress avoided, and penalties prevented.

Sales Tax

Welcome to One of the Most Aggressive Tax Systems in the Country

If you're doing business in Texas, congratulations! You get to deal with one of the most aggressive sales tax codes in the country.

Unlike income tax (which Texas doesn't have), sales tax is very much a thing, and the state takes it very seriously. If you're selling taxable goods or services, you're responsible for charging, collecting, and remitting sales tax—and trust us, Texas doesn't mess around when it comes to enforcement.

Do You Need to Collect Sales Tax?

If you sell taxable products or services, the short answer is yes.

- Tangible goods? Almost always taxable.
- Services? Some are taxable, some aren't—it depends on what you're offering.
- Selling online? If you have a physical presence or customers in Texas, you likely have to collect and remit sales tax.

And here's the kicker: You don't just pay sales tax in the city where your business is located—you have to charge the correct tax rate based on where your customers are.

This means if you're shipping goods or providing services across Texas, you could be dealing with multiple tax rates in different jurisdictions.

Sales Tax

Welcome to One of the Most Aggressive Tax Systems in the Country

Sales Tax Filing Requirements

Once you start collecting sales tax, you can't just sit on it and hope the state forgets about it. They won't.

The Texas Comptroller requires you to file sales tax reports on a:

- Monthly basis if you collect a large amount of sales tax
- Quarterly basis if you collect a moderate amount
- Annual basis if you collect very little

Your filing frequency will be determined when you register for a Texas Sales Tax Permit (which you need before you can legally collect sales tax).

What Happens If You Don't Remit Sales Tax?

Two words: Big trouble.

Sales tax isn't your money—it's money you collected from customers on behalf of the state. If you fail to remit it, Texas treats it like you stole it.

Miss a deadline? Expect penalties and interest.
Ignore it completely? They can shut down your business and come after you personally.

Sales Tax

Welcome to One of the Most Aggressive Tax Systems in the Country

Bottom Line: Stay on Top of Sales Tax or Texas Will Stay on Top of You

If you sell taxable goods or services in Texas, you must collect and remit sales tax. The state is aggressive about enforcement, so don't mess around with this.

- **Register for a Texas Sales Tax Permit.**
- **Charge the correct sales tax rates based on where your customers are.**
- **File and remit sales tax on time (monthly, quarterly, or annually, depending on your business).**

Need help setting up or managing sales tax compliance?
We can help—get in touch with our team here.

Where to Start

Focus on Customers First, Not Spreadsheets

Starting a small business comes with a lot of moving parts. There's accounting, taxes, payroll, sales tax, legal structures—it's a lot. And while all of those things matter, they don't mean anything if you don't have customers.

Because here's the truth: A business without customers isn't a business. It's just an expensive hobby.

It's easy to get caught up in perfecting your product, refining your service, or obsessing over your logo. But the real question is: Where are your customers, and how do you get in front of them?

All the accounting and tax planning in the world won't fix a business that doesn't generate revenue. So before you stress over bookkeeping software or tax deductions, focus on getting your first paying customers.

Once you do that? Everything else will start falling into place. And when you're ready to get the financial side in order, we'll be here to help.

Need Help? Let's Talk.

Running a business is hard enough—figuring out accounting, taxes, and payroll doesn't have to be. Whether you need help choosing the right business structure, setting up QuickBooks, or making sure the IRS doesn't come knocking, we've got you covered.

- **Visit our website:**
  www.adamtraywick.com

- **Email us at:**
  info@adamtraywick.com

- **Reach out through our contact page:**
  www.adamtraywick.com/get-in-touch

We'll help make sure your business is set up for success—without the financial headaches.