

Family General Partnership

Skane Tax Solutions'

Beginning Family Business Entity



What is a Family General Partnership?

- A Family General Partnership (FGP) allows for a single consistent reporting entity to report all family business activity as the businesses change over time. Over the years either one spouse may be more involved in a business. These businesses may change over time. Also, multiple businesses may be operated at one time.
- By operating and reporting all business activity under an FGP there is only one entity to license, insure, and report for tax purposes. It can be used over and over for various business opportunities. Over time the business activity should increase to further show that you do have a profit motive for your business and it is not a hobby. An FGP will also reduce your risk of an IRS audit. See "Benefits of an FGP" section of this document.

What is a Family General Partnership? (cont.)

- An FGP offers a low cost formal business structure for a family to conduct various businesses. This offers substantially lower start up costs and operating expenses than either a Corporation or a Limited Liability Company in California. Additional liability protection is available through a Corporation or Limited Liability Company, but at much increased initial and annual compliance costs.
- The Biggest detriment of having an FGP is UNLIMITED LIABILITY. This is similar to a sole proprietorship in that an FGP offers no liability protection.
- It is always recommended to have good insurance coverage when conducting a business. A \$1,000,000 comprehensive general liability business insurance policy costs about \$400 to \$600 per year.

Who needs an FGP?

Many taxpayers have the need for a FGP.

- Do you now operate a small business or family business?
- Do you want to operate a small business or family business?
- Do you have "side income" and need a method to report this income without adverse tax consequences?

Who needs an FGP? (cont.)

- Is your family trying to build a family business to eliminate the need to work as an employee?
- Do you want to learn how to use the same skills and talents you exchange for a paycheck to capitalize in your own FGP?
- Do you know that these existing skills and talents will launch the first FGP profit center
 - You can grow this first profit center by getting more customers

Who needs an FGP? (cont.)

- Do you know that this FGP income can then be used to develop other FGP profit centers?
 - Take advantage of the FGP structure and leverage your time and talents by getting others to help provide services to customers
 - Spouses, children, family, and friends can work for the FGP and receive non-taxable benefits and/or compensation
- Do you want to save thousands in taxes every year?

Who needs an FGP? (cont.)

- Do you want to start saving taxes today?
- Do you need an FGP or a Corporation or a LLC?
 - Because your business is already making substantial income
 - The nature of the business is such that the increased liability protection offered by a Corporation or a Limited Liability Company is beneficial
 - STS can offer advise on which is better and whether the increased costs of owning and operating a Corporation or LLC are worthwhile over that of a FGP

Benefits of an FGP – Thinking Business

- One of the Biggest Benefits from having a FGP is that it allows for the partners to focus on conducting business on any money making business opportunity available at any time. It is a “Think Business” machine that will hopefully deliver you from your regular “day job” to the world of entrepreneurship and owning your own business. This can provide you with a lifestyle that you have only dreamed of in the past.
- The formal structure, business plan, fictitious name, Web Site, licenses, permits and tax ID number is the “Hardware” part of your business. The fuel is supplied by your ideas, enthusiasm, actions and STS’s support and advice. The control center is provided by QuickBooks Simple Start Free Edition. This is a REAL BOOKKEEPING SYSTEM that is included in the FGP program. It is easy to maintain and to record and document your business expenses (TAX WRITE-OFFS) and manage your ENTERPRISE. Now all the components are in place “Think Business” and to operate your FGP. Now you take command of the FGP just like Captain James Tiberius Kirk of the USS Enterprise but instead of traveling to uncharted galaxies you will pilot your FGP into the world of entrepreneurship and capitalism.

Benefits of an FGP – Thinking Business (cont.)

- A successful entrepreneur realizes that the combination of skill, passion, and enthusiasm creates a "Profit Making Opportunity." Look at your other talents and the talents of your family and friends. What do they excel at? What do they feel passionate and enthusiastic about? Do they like to travel, surf the World Wide Web or surf the ocean? Do they play video games, ride bikes or motorcycles, or collect coins? Each of these activities can lead to other potential "profit centers." Expenses investigating and researching these potential businesses are tax deductible to the FGP. Creating another business from these activities can generate additional income and tax-deductible expenses while having fun and improving the quality of life of your entire family. This is the FGP in action!
- Look beyond your hometown and see the world! Look for additional business locations and potential businesses to acquire. There are over 144 different ways your FGP acquire property and other businesses. Associated travel, investigation and research experience are tax deductible to the FGP. Being able to work and live wherever you want to is another example of the FGP in action!

Benefits of an FGP – Thinking Business (cont.)

- You can use the power and capabilities of your own, your family, your friends, the World Wide Web, and advertising and promotions to grow your FGP. This can be done while being involved with businesses that are fun and profitable, while minimizing your taxes and become financially free and independent through your own FGP!
- Over time as your business increases you can replace and/or convert your paycheck with business income
- You can take advantage of the FGP and leverage your capabilities through others with non-taxable benefits and/or compensation. Combine the skills, passion, and enthusiasm of your family to generate additional income and tax-deductible expenses while having fun and improving the quality of life of your entire family.

Benefits of an FGP – Thinking Business (cont.)

- Experience why it is better to be the employer than the employee
- It is your entry into the world of entrepreneurship and tax reduction
- Be able to work whenever you want and live wherever you want, while paying the minimum legal tax

Benefits of an FGP – Thinking Business (cont.)

- Have a single business card for their business activities
- Avoiding the IRS considering your business activities a “HOBBY” which is the worst of all outcomes.
- If the IRS says your activity is a HOBBY then all gross income is included as additional gross taxable income in determining your adjusted gross income

Benefits of an FGP – Thinking Business (cont.)

- All expenses, including cost of sales, are considered Section 183 hobby expenses which are deductible up to the amount of your gross hobby expenses as miscellaneous itemized deduction which is an adjustment for alternative minimum tax purposes
- The FGP when operated properly shows that the activity is a business and that all qualified business expenses are therefore deductible against that income on the FGP partnership tax return.

What Are The Costs Of A FGP?

The standard Family General Partnership Program includes:

- A standard California General Partnership Agreement ready for your review
- Assistance in determining the FGP name
- Sample Business Plan for your FGP

What Are The Costs Of A FGP? (cont.)

- Assistance in getting your:
 - Federal Employer Identification Number
 - Business License
 - Board of Equalization Resellers permit. STS recommends this to allow the FGP to immediacy act upon business opportunities requiring a reseller's permit. It is further evidence that the FGP is a real business for tax purposes. Also when very little sales tax is anticipated to be collected then it is easier to get the reseller's permit without a deposit with annual filing requirements vs. monthly or quarterly filing requirements.
 - Fictitious Name Statement
 - Complementary set of Sanford C. Botkin's Tax Strategies for Business Professionals. Sandy is a CPA and tax attorney. His web site is <http://www.taxreductioninstitute.com>. To quote from Sandy's web site "If you own your own business (even a small home based business) or if you're an Independent Contractor, Sandy's program on audio CD's will help you save hundreds... even thousands of dollars each year. These audio CD's are good for 8 hours of continuing education credits through the National Association of State Boards of Accountancy."

What Are The Costs Of A FGP? (cont.)

- Assistance in setting up a basic bookkeeping system:
 - Initial set up of your QuickBooks Simple Start Free Edition
 - On line training and support for using and maintaining your QuickBooks
 - QuickBooks will help you set up a merchant account using the QuickBooks Simple Start Free Edition at a cost of \$14,95 per month plus the discount fees on the charges process ranging from 1.79% to 3.39%
 - This QuickBooks Simple Start Free Edition might not be appropriate for all businesses and those businesses might require QuickBooks Pro. This will require additional charges
 - Hosting of your QuickBooks on our secure server (if practical)

What Are The Costs Of A FGP? (cont.)

- Information on obtaining a URL and setting up a simple web site for your FGP
- Preparation of the following returns:
 - The annual U.S. Partnership Return (Form 1065) for the FGP
 - The annual California Sales and Use tax return
 - Note: Monthly or quarterly Sales Tax Returns (if required) will have additional charges
 - The annual California Unsecured Property Tax Return
- Reminding you when it is time to renew your business license and Fictitious Name Permit

What Are The Costs Of A FGP? (cont.)

- Preparing a IRS W-9 for the FGP and finding out who should receive it for the FGP (anyone who has sent the client a 1099 in the past or who is anticipated to send a 1099 for 2010)
- The initial set up cost is \$499.00 and the annual cost is \$600.00 payable monthly through STS QuickBooks recurring credit card billing feature.
- The additional annual charge for a personal tax return will depend on how much work we actually do for the FGP and how complex the remaining issues are with the personal tax return

How To Get Started

- Make a decision and take the appropriate action steps to take control of your life, your sources and nature of your income, and your taxes by signing up for your Family General Partnership.
- Let Skane Tax Solutions (STS) show you how to leverage it skills and capabilities with your skills and capabilities. STS can teach and guide you in the steps required to operate your FGP and stay in compliance with federal and California laws. STS can provide tax planning to minimize your taxes. STS has the knowledge, experience, staff, and resources to teach you how to benefit and operate your FGP

How To Get Started (cont.)

- File out the questionnaire furnished to you to get started
- Review the sample general partnership agreement furnished
- Set up an accounting system
- Your system

How To Get Started (cont.)

- Our system (QuickBooks Simple start or our own programmed equivalent)
- Name, address, EIN number, etc boilerplate info
- List of income accounts (Client can add to standard accounts)
- List of expense accounts (Client can add to standard accounts)

How To Get Started (cont.)

- Transaction screen. Date, amount, account, how paid (ck#, CC chg)
- Quick reports for Income and Balance Sheets
- Following up and getting W-9 to anyone who has sent the client a 1099 in the past or who is anticipated to send a 1099 for 2010