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10 TIPS TO OPERATE YOUR NEW CORPORATION

By Victor Sy, CPA, MBA

Congratulations on your new corporation! Here are 10 tips that I send to my clients to help them get started:

- 1 Sign a [Power of Attorney \(POA\) & Engagement Letter](#). The POA authorizes us to deal with the IRS so they call us instead of you. The engagement contract specifies our services & the costs of such services
 - 2 Open a new [business checking account](#):
 - A. Use this account *exclusively* for depositing *business* revenues & paying business expenses.
 - B. Do *not* use this new business account for paying *personal* expenses (groceries, mortgage, etc).
 - C. Do *not* deposit business collections into your personal account (unreported income problem).
 - D. *Commingling* business & personal expenses is a major cause of IRS audits of related parties.
 - E. Pay yourself a *salary* & deposit your paycheck into your personal checking account.
 - F. Pay personal expenses such as mortgages and groceries from this personal account.
 - G. Instruct bank to cut off bank statements at the *end of the month*
 - H. Very important: *Request copies of cancelled checks*. Think of potential audits three years from today.
 - F. Pay personal expenses such as mortgages and groceries from this personal account.
 - 3 You have to pay yourself a [salary](#) as an officer-employee of the corporation:
 - A. Do not just “draw” or loan from the corporation. Get a salary to pay for your personal living expenses.
 - B. A huge benefit of an S-corporation is freeing your corporate net income from self-employment tax.
 - C. IRS can assess self-employment (FICA/Medicare) on net income if your salary is unreasonably low.
 - D. *Inadequate officer comp is a magnet for IRS audits*.
 - 4 [Loans to shareholders](#) attract IRS audits. ☹ They also have to be paid back.
 5. Assign [credit cards](#) exclusively for business (Visa) & personal (MasterCard). Assign a gas card for business only (Union 76) & personal only (Shell). Do not mix & match. If you use the same cards for both business & personal, any personal IRS audit could spill over into your business & vice versa. An IRS agent reviewing you personal returns may have to examine your business also if personal expenses are paid from there.
 6. Obtain all necessary [licenses, permits, & insurance](#) such as fire & theft, and workers’ comp.
 7. Pay attention to [tax filings, payments, & deadlines](#). Neglected, unfiled, & unpaid taxes are a major source of business failures. Failure to pay & file on time creates headaches that require financial, time, & other resources that would be otherwise spent on taking care of your business & your customers. Give it high priority. Assign a responsible person to monitor tax filings and payments.
 8. Provide [lease agreements, loan documents, major equipment purchases](#) to us now, then send bank statements, check stubs, in-house journals & ledgers, as well as notices from the IRS, EDD, FTB & other agencies to us every month.
 9. Call me about [tax-saving ideas regarding vehicles, medical insurance, pension](#), & other ideas.
 10. You must [respect your new corporation](#). If you don’t, neither will the IRS and plaintiffs in a lawsuit.
- PS: If your new corporation was a prior sole proprietorship with its own federal employer identification number, be sure to send [Form W-9](#) to vendors who issue you Form 1099s; otherwise, they’ll keep using your old identification number. This will cause a mismatch between what your new corporation deducts and what the vendors report to the IRS. This spells trouble – correspondence & explanations at the least. Compare the inconvenience to solve what could have been an easy mailing of Form W-9s.

Update: EDD (Employment Development Department of California) is on the lookout for S corporation shareholders who take little or no salary. California conforms to federal law that payments to shareholders who perform services for the corporation but do not receive a salary for services - are wages, not distribution of earnings and profits that could qualify for the special 15% rate on dividends.