

SelfInformed

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*NASE Member and CPA
Tiffany Washington
is helping her clients
prepare for tax year
2011 changes.*



BACK IN BUSINESS



What Retirees Need To Know Before Starting Their Own Companies



By Kim O'Connor

The number of Americans who go back into business after retirement is on the rise.

The 2010 Kauffman Index of Entrepreneurial Activity showed 23 percent of new entrepreneurs are 55 to 64, a figure that was just 18 percent in 2000.

Some retirees start a business out of financial necessity. According to a 2010 survey of more than 5,000 people over age 50, the AARP Public Policy Institute found that more than half of respondents weren't confident they had saved enough for retirement.

Other retirees simply aren't ready to relax. The 2009 data from the Centers for Disease Control and Prevention show that life expectancy is at a record high. That means the golden years can stretch into golden decades—which can be dull when you don't feel productive.

Whether your goal is to fund your retirement, stay sharp and busy, or build the company of your dreams, here are six things you need to know before launching a venture later in life.

Try to build your new business around your proven skills and talents.



“You need someone to help you evaluate the financial risk that you are about to take.”

1. Understand how it will impact your Social Security benefits

Even if your retirement plan doesn't depend on Social Security, it's important to understand how your new business might affect your benefits.

“Sit down with an accountant or a tax professional so that you can make calculations as to what the real dollar return from your new business will be,” says Gene Fairbrother, the lead consultant for the [NASE's Business 101 program](#).

The profit from your business might reduce your Social Security benefits if you begin taking them before you reach full retirement age (which is 66 or 67, depending on what year you were born). Generally speaking, your benefits will be reduced by one dollar for every two or three dollars you earn in excess of a set amount.

After you've reached full retirement age, your benefits can't be reduced. They can, however, be taxed if your total annual income exceeds \$25,000.

Learn more about how work can affect your benefits at the [Social Security Administration website](#).

2. Find ways to minimize risk

Starting a new business involves some amount of financial risk, no matter your age. But the stakes are especially high for older entrepreneurs, who may not have time to rebuild if the business fails.

Ideally, your new business will have little to no startup costs if you don't have reserves of discretionary cash. That way, you won't have to worry about digging yourself out of debt or rebuilding your nest egg in a hurry.

“If you can't afford to lose it, don't invest it,” Fairbrother advises.

If you assume more financial risk, Fairbrother recommends planning for the worst and hoping for the best. Talk

about the big financial picture with someone you trust who can offer an objective opinion.

“You need someone to help you evaluate the financial risk that you are about to take,” he says. “It's important that you talk to people who aren't looking through your rose-colored glasses.”

3. Weigh the pros and cons of different funding sources

If you decide to borrow money, consider your options carefully.

For many borrowers, a home-equity loan may offer the best terms. But if you're dependent on Social Security for financial stability, banish the thought. You could lose your home if the business fails.

Nest eggs aren't off-limits, though you should dip into those funds with extreme caution.

“A lot of people in all age brackets have started very successful businesses on their retirement plans,” Fairbrother says.

But any money you withdraw may be subject to penalties or taxes (or both!), depending on your plan.

4. Be mindful of your lifestyle and your limitations

Be realistic about the amount of time you are willing—and able—to commit to your new business.

Make sure the demands of the work align with your day-to-day life. For example, if you hope to spend more time with your grandkids, or if your spouse is unwell, you may not want to put in 40-hour weeks.

Also, be brutally honest with yourself about your health situation. Running a business can be physically, mentally and emotionally challenging. Talk to your doctor about how it could impact your short- and long-term well-being.

THE NASE CAN HELP

As a retiree launching a startup business, you'll face many of the same challenges as any new entrepreneur. That's where [The NASE Startup Kit](#) can help.

It's free with your NASE Membership. And it's online now so you can dig in right away!

[The NASE Startup Kit](#) covers the 10 most important things you need to know to start a business. It tells you about the basic things so many entrepreneurs overlook. It shows you what to do to successfully launch your new venture. And it points you toward additional resources you can turn to for more in-depth information.

You'll learn about:

- The legalities of running a business
- Developing smart financial habits
- How to choose the right business structure
- Tax responsibilities
- And so much more



**TOUGH
DECISIONS
AHEAD**

“It’s just as important to have a mentor at 65 as it was when you were 25.”

5. Build on what you know and then fill in the gaps

As a seasoned professional, you have a lifetime of experience and contacts upon which you can draw. Try to build your new business around your proven skills and talents. Even if that’s not possible, make sure to leverage your existing network.

While it might seem like you’ve seen it all, there may be times you need to seek outside expertise. Remember that as an NASE Member you have free, 24/7 access to our **team of experts** who can answer your questions, offer advice and give you guidance.

In addition to the research it requires to launch any new business, there may be a specific skill you should develop.

If you’re entering a new industry, or you have never owned a business, seek out someone who can give you **words of wisdom**.

“Find somebody who can mentor you,” Fairbrother suggests. “It’s just as important to have a mentor at 65 as it was when you were 25. People who have been there and done that can help prevent you from making mistakes.”

6. Don’t forget to plan for your real retirement

Right now, it may seem like you’ll want to work forever, but chances are the day will come when you’ll want (or need) a break. Careful planning will help ease the transition into full-time retirement.

Think about what will happen to your business after you move on. If you’re a consultant who works from home, you can probably shutter your business without fuss. If operations are more complex, take steps to ensure that the business will be ready to sell or to bequeath to an able successor.

Finally, if you plan to dip into your retirement savings to fund the new business—or if you’re not yet satisfied with what you’ve saved so far—make sure you establish a **retirement plan** that suits your new circumstances. ■

Kim O’Connor is a freelance writer with plans to perfect her Bingo game after retirement.

The National Association for the Self-Employed (NASE) is pleased to announce our **2012 Annual Meeting on April 20th.**

The Annual Meeting will be held in Annapolis. NASE Members are not required to pre-register to attend. Please find more meeting details below:

NASE Annual Meeting

DATE: April 20, 2012

TIME: 9:00 a.m.

LOCATION: Westin Annapolis
100 Westgate Circle
Annapolis, MD 21401

*Meeting held in the Caucus Room

Please contact NASE’s Member Service Center at 800-649-6273 with any questions.



Ask The Experts

Q: *As a small-business owner, what tax changes should I be aware of when completing my 2011 tax forms?*

A: There are a number of tax law changes you need to know about. Here's a brief look at a few of the major changes.

Self-Employed Health Insurance Deduction

Unfortunately, the payments that small-business owners make for health insurance premiums for themselves and their families won't be as tax beneficial for 2011 tax returns as they were for 2010. The premiums paid for health insurance by the small-business owner will be still be deductible on Form 1040, but unlike in 2010, those same premium deductions will not be included on Schedule SE, Self-Employment Tax. That means net earnings from self-employment will be higher, and the related self-employment tax will be higher.

Payroll Tax Cut for 2011

Beginning Jan. 1, 2011, the employee's portion of Social Security tax was decreased from 6.2 percent to 4.2 percent on the first \$106,800 paid to the employee. For the small-business owner, the Social Security portion of self-employment tax was decreased from 12.4 percent to 10.4 percent, which was a significant benefit. Small-business owners will see the savings on Schedule SE. And all working Americans will see up to \$2,000 in lower taxes.

Reporting of Employer Provided Health Care

The Affordable Care Act that was passed in 2010 required that employers begin reporting the cost of coverage under an employer-sponsored group health plan. That reporting was originally required beginning on Jan. 1, 2011, so that business owners would have to report those amounts for the year just ended. The good news is that more time has been granted. The reporting for 2011 is now voluntary for all employers and optional for 2012 for those employers with less than 250 employees. Check out [Notice 2012-9](#), issued Jan. 3, 2012, for more detail.

Increase in Maximum Section 179 Deduction

The Small Business Jobs Act of 2010 increased the maximum allowable deduction under Code Section 179 from \$250,000 to \$500,000 for tax years beginning in 2010 and in 2011. This provision provides additional incentive for small-business owners who invest in new equipment for both years. At the same time, the limit for the phase out of the deduction was increased to \$2,000,000 from \$800,000.



GET ANSWERS TO YOUR TAX QUESTIONS

As you're working on your return, don't forget that you can ask questions of the NASE's tax experts online through the [NASE's Business Learning Center](#). Unlimited 24/7 access to the tax and other experts is free with your NASE Membership.

Standard Mileage Rates Adjusted for 2011

Business owners using their personal vehicle for company business in 2011 can deduct 51 cents per mile on their 2011 tax return. The rate for medical miles driven is 19 cents per mile for 2011. Charitable miles use the rate of 14 cents per mile for 2011.

Deductible Contribution Limits for IRAs and Other Retirement Plans

Where an IRA contributor who is not covered by a workplace retirement plan is married to someone who is covered, the deduction is phased out if the couple's income is between \$169,000 and \$179,000.

AMT Exemption Increased for 2011

For tax year 2011, the alternative minimum tax exemption for a married couple filing a joint return is \$74,450, a \$2,000 increase over 2010. For single filers, the exemption is \$48,450, a \$1,000 increase over 2010.

Find out more information about these and other tax law changes for the 2011 tax season at irs.gov. ■

Member Spotlight

Designing A Lifestyle

Kathy Johnson has been an NASE Member since 2006. She owns Kathy Johnson Graphics in Poway, Calif.

Tell us about your business.

My business is a design service geared toward small businesses. I specialize in designing printed pieces, websites, videos and copywriting. I believe if a business doesn't have professional looking materials they won't be taken seriously. I design a large variety of print projects including books, catalogs, print ads, brochures, newsletters, and technical manuals. Logo design is another area that I specialize in. I also design websites, short movies and YouTube videos for clients.

Why did you start Kathy Johnson Graphics?

I started the business over 20 years ago because I didn't want to do the exact same thing all the time. After several years of working as a production artist in a variety of companies, I decided to go out on my own because I wanted variety in the type of jobs I was working on and not to be tied to a rigid work and commute schedule.

What challenges have you faced in running your business?

The primary obstacles for me have been keeping a steady flow of work coming in and keeping my technology current. I'm not sure I'll ever totally overcome these challenges, and I know all I can do is keep working at it. I look for stable companies to work with, which helps with the steady work flow, and I have a wonderful computer tech on speed dial for the technology challenges.

How do you market your business?

The majority of my marketing is word-of-mouth from satisfied clients, and I've found this is by far the best source of referrals. I have my logo and contact information on the majority of the websites I design, and I advertise in the printed programs and websites for school activities my children are involved in. I also use [LinkedIn](#) to reach connections that are in my target market.

What's the best thing about owning your own business?

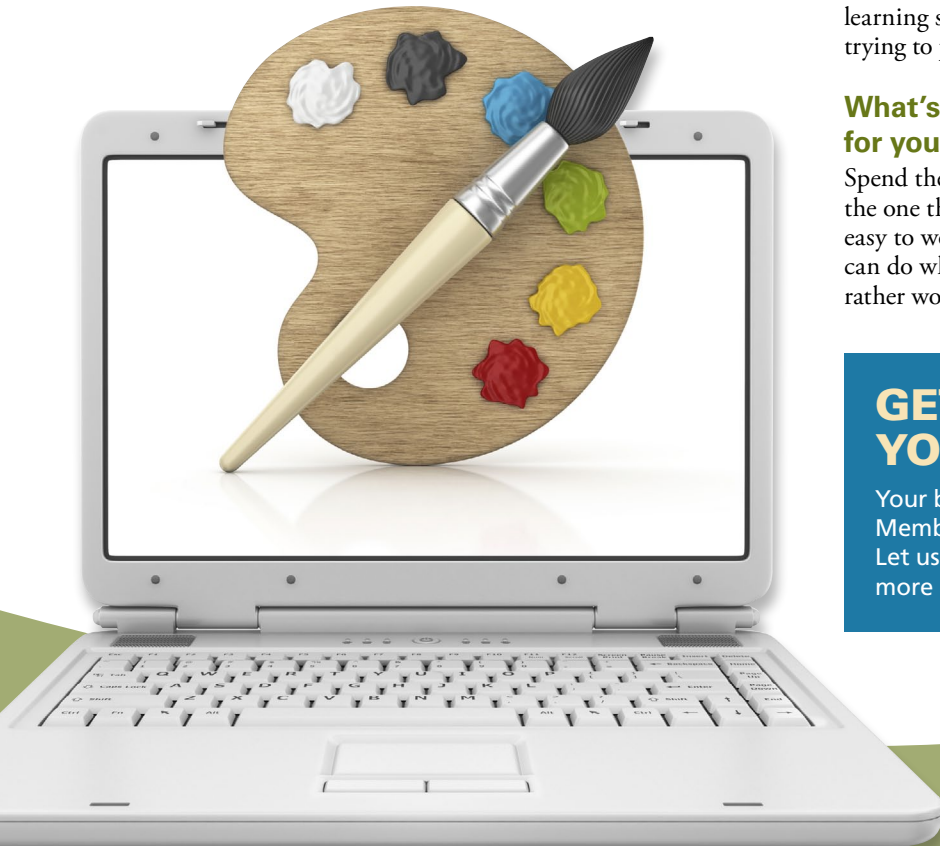
The flexible schedule is one of the key things for me and the other key is the challenge of constantly learning new things to keep up with what my clients need. It's never boring because I'm always learning something new, researching to solve a problem or just trying to put a new spin on an old problem.

What's the best piece of advice you have for your fellow NASE Members?

Spend the time to develop relationships with your clients. Be the one they want to call because you're a known quantity and easy to work with. There are always other people out there who can do what you do, so you need to be the person they would rather work with. ■

GET PUBLICITY FOR YOUR BUSINESS!

Your business could be featured in SelfInformed's Member Spotlight or in another NASE publication. Let us know you'd like to be featured and tell us more about your business on our [Publicity Form](#).



NASE ADVOCATES

Tax Changes In 2012 To Help Small-Business Owners

By Kristie L. Arslan

The nation's 22 million self-employed business owners are building companies and contributing to the economic turnaround. However, they are disproportionately challenged by burdensome regulatory compliance, including an unfair tax burden and excessive paperwork requirements.

The NASE continues to advocate for simple changes to federal law that would address these challenges and ensure an even playing field for small businesses. Building on 2011 advocacy efforts, below is the NASE's 2012 Self-Employed Tax Agenda. We're working to educate lawmakers and encourage legislative and regulatory changes that will allow small businesses to unleash their full potential.

ISSUE: Self-Employed Health Insurance Deduction

The premiums paid for health insurance by small-business owners remain a deductible item Form 1040 in 2011, however those same premiums will not be included on Schedule SE, Self-Employment Tax. That means net earnings from self-employment will be higher and the related self-employment tax will be higher. This is, in effect, a 15.3 percent tax hike on small-business owners.

Legislative Action: Advocate for legislation that permanently secures the deduction.

The NASE strongly supports the full year extension of the payroll tax deduction.

ISSUE: Payroll Tax Relief Extension

The payroll tax cut for 2011 expired at the end of February 2012.

Legislative Action: The NASE strongly supports the full year extension of the payroll tax deduction as an easy and necessary step in supporting economic recovery.

ISSUE: Standard Home Office Deduction

Entrepreneurs managing businesses out of their home face added burdens at tax time. The current home office deduction has the words "See Instructions" more than 10 times on a one-page form. Bipartisan legislation has been introduced in Congress to allow business owners the option of a \$1,500 standard deduction, but would not preclude taxpayers currently qualifying for the home office deduction from continuing to itemize their expenses should they choose.

Legislative Action: More than half of the self-employed work from an office at home, so Congress should pass and the president should sign legislation simplifying the deduction.

ISSUE: Tax Deduction for Startups

Passed as part of the Small Business Jobs Act of 2010, this provision allowed individuals to take a \$10,000 deduction for startups in 2011. In 2012, the deduction will decrease to \$5,000.

Legislative Action: Seek renewal of the deduction at the \$10,000 rate. This deduction is vital to encouraging individuals to continue to start new companies and contribute to the growth of our economy.

ISSUE: Alternative Minimum Tax (AMT) Exemption

For tax year 2011, the AMT exemptions increased for married couples filing jointly and for single filers. For tax year 2012, the AMT exemptions are scheduled to decrease to year 2000 levels for many taxpayers.

Legislative Action: Advocate for the AMT to remain at the 2011 deduction rate. A decrease in the AMT would unfairly burden the self-employed with a higher tax rate.

We all know 2012 is a pivotal year for the economy, and for the politicians who help shape policies designed to boost growth. If our elected leaders are concerned about keeping their jobs into 2013, they should focus on the tax policies the self-employed need to keep growing their businesses in 2012. ■

Kristie L. Arslan is president and CEO of the NASE and provides critical insight to policymakers on issues affecting our nation's self-employed. You can contact her at advocacy@NASE.org.





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