

Creating Wealth with a Small or Home-Based Business

Millions of Americans are discovering how to attain wealth with a small business. Many individuals are being outsourced due to companies downsizing. This trend is expected to continue due to increasing foreign competition and factors in the US economy. A small business is defined as a business with 10 employees or less. A home-based business falls under the category of a small business for our discussion therefore we are also speaking of home-based businesses. A small business is one of the last significant tax shelters other than a home for middle-income Americans. Individuals can receive tremendous tax incentives with a small business along with income-generating opportunities. Items such as training, books, business meals, entertainment, business travel, payment to family members for employment services, auto maintenance, utilities, a percentage of the mortgage or rent, and others. Tax advice is beyond the scope of this document and the discussion here is not intended to provide advice, strategies, or education on tax subjects. To get the necessary information on small business tax considerations, visit <http://realsolutions.50megs.com/financialfreedom.html>

The small business should be started with every attempt to make a profit. The IRS allows the business owner time to generate a profit. Most business owners will incur a loss for at least the first year of operation. Some incur a loss the second year as well. If the business does not show a profit by the third year, it is in risk of being labeled a hobby by the IRS. Hobbies are not given the same tax consideration as small businesses therefore the deductions would not apply.

A business owner can employ several strategies to generate wealth. Using the tax deductions allowed by the IRS, a business owner may elect to pay his or her children to help out with the business. The children could put all or a portion of their wages into a tax-deferred college savings fund. The wages would be a tax deduction for the parent and depending on the children's tax bracket, the wages could be tax exempt income for them as well.

Take, for example Bob, who is an employee of a company. Bob receives \$40,000 a year from his employer in wages. Now let's say that Bob decides to start a small business. The first year, his business has \$12,000 in revenue. The expenses were \$15,000 for the first year which included business meals, business travel, educational training (books, seminars, etc), wages to family members, advertising, office expenses (printer, computer, paper, etc), utilities for his office, mileage for his auto for business travel, costs related to manufacturing the product or providing the service, a percentage of his rent or mortgage if his business met the IRS criteria of a home-based business, and other business expenses.

Because Bob's business had a net loss of \$3,000 (\$12,000 - \$15,000), he could report a lower taxable income to the IRS. In other words, he would report his taxable income to be \$37,000 to the IRS rather than \$40,000. Depending on other things going on in Bob's life, this could reduce his tax liability. The IRS allows for business deductions but does not allow for tax avoidance. Be sure you understand the difference. There are certain items that can be deducted in a small business that could effectively lower an individual's taxable income as long as it is not a ploy to avoid paying taxes. The business owner must make every attempt to make a profit. Otherwise, after the third year, the IRS views the operation as a hobby as stated previously. Again, tax advice is beyond the scope of this document and the discussion here is not intended to provide advice, strategies, or education on tax subjects. To get the necessary information on small business tax considerations.

A business can be established in several methods such as a franchise, multi-level marketing, affiliate, and start from scratch method. A franchise is a method of doing business wherein the franchisor approves a franchisee to use certain processes of doing for an upfront fee and a percentage of monthly sales or monthly profits. It is a cookie-cutter approach to owning a business. Franchises can cost as little as \$20,000 and up to several millions of dollars.

Many forward-thinking company executives have adopted the multi-level marketing or MLM technique to selling their products and/or services. With a MLM business, an individual can receive training support, and possibly marketing support from the parent company. A MLM business owner earns a commission on their personal sales as well as a commission on the sales generated by the people they have recruited into the organization once certain qualifications have been met. This type of business can be started with as little as a \$49 investment or with as much as several thousands of dollars.

An affiliate business is one in which an individual agrees to market a company's product or service in exchange for a commission. An affiliate usually receives a Website and earns a commission on revenue or leads generated through the Website. Some affiliate programs have a tier structure allowing the business owner to also earn revenue from affiliate members who signed up from their Website.

Starting a business from scratch can be the most risky of all choices. There are many areas that must be explored and mastered in order for this method of business to be successful. Historically, startup businesses using this method have a much higher failure rate than the other startup methods. However you have more control over the service/product pricing, marketing, distribution, and other aspects of the operation. It can be very satisfying when your product or service is delivered in the manner you envisioned.

With the additional income from the business coupled with the tax savings, you could have the opportunity to save more money on a monthly basis toward your retirement funds, college funds, and/or dream funds. If you are able to save this additional money in high earning yields (methods paying high interest rates), you can build substantial amounts of wealth over time. Consider the following:

Saving \$500 a month at a rate of 10% for 20 years would result in approximately \$379,684 in your savings fund.

Saving \$1000 a month at a rate of 10% for 20 years would result in approximately \$759,368. Twice as much as if you were saving \$500 a month.

Now consider these:

Saving \$500 a month at a rate of 15% for 20 years would result in approximately \$748,620 in your savings fund. Over \$368,936 more in your fund than if your money was growing at 10%.

Saving \$1000 a month at a rate of 15% for 20 years would result in approximately \$1,497,239. Over \$737,871 more in your fund than if your money was growing at 10% annually.

Saving \$500 a month at a rate of 20% for 20 years would result in approximately \$1,554,825 in your savings fund. Over \$1,175,141 more in your fund than if your money was growing at 10%.

Saving \$1000 a month at a rate of 20% for 20 years would result in approximately \$3,109,652. Over \$2,350,284 more in your fund than if your money was growing at 10% annually.

This is the magic of compound interest and is how you can generate a great deal of wealth. The key is to maximize, maximize, maximize. Use a small business to maximize your monthly savings contribution. Maximize the amount of interest your money will earn annually. And maximize the number of years the money will grow.

To learn more about maximizing your options, click here to visit <http://www.retirein10years.com>

Suze Ortoman has devoted many years researching the areas of wealth, retirement, and other personal finance topics. This article may be copied with credit to author given but may not be modified in any respect without author's prior approval. To learn more about this topic, visit <http://www.retirein10years.com>.