4 tips for hiring
your first employee in 2013

Hiring staff is a commitment to the future, and should be done in the context of your long-term growth plan. Here are some points to consider:

1 What is your vision for your business? When faced with too much work, solopreneurs are often encouraged to hire up, but is that what you want for your business? Is it your goal to become a larger business or remain a sole proprietor? Could you use independent contractors or outsource certain functions? Could you team with other businesses? For example, a web designer could partner with a marketing consultant to offer customers a range of full-service solutions.

Virtual assistants or temporary workers are other viable options, but be aware: many laws and regulations that apply to full-time employees also apply to seasonal or part-time employees.

2 Where do you need help? You need to project your business workload and identify areas where you need help. What does your workload look like for the next several months, and which jobs do you need help with? Perhaps you need skilled labor out in the field, or a sales rep to help you grow your business.

3 Can you manage people? If you've managed employees, how successful were you at making good hiring decisions? Do you enjoy managing and leading others?

4 Can you afford it? Start by listing the costs and overheads that your business will incur. These include:

- Wages and benefits
- Unemployment tax – State unemployment taxes vary by state. Federal unemployment tax is 0.8 percent on each employee's first $7,000 of earnings.
- Workers compensation insurance – This figure depends on your industry and the job performed. Check with your state about your expected rate.
- Medicare and Social Security taxes – Currently, Social Security tax is 6.2 percent on wages up to $113,700, and Medicare tax is 1.45 percent.
- Payroll, recruitment and training costs
- New equipment and software licenses
- Insurance for company vehicles

Now look at last year's income and expenses and factor in the projected annual cost of an employee and the extra income one might make possible.

Finally, consider your pipeline and cash flow. Can you afford to live with reduced profitability for a few months as your business ramps up? Calculate what you can put into generating new business if you are freed up.

Featured Small Business:

Floore Industrial Contractors, Inc.
Moss Point, MS

"I wouldn't be where I am today if it wasn't for Paul Thompson's dedication to me and my business. He and his team were there for me at times when I really needed it most."

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Calendar or fiscal? Which tax year is right for you?

Did you know you can choose the tax year you intend to operate your small business under? Choose well, because there are pros and cons for either method.

A tax year is an accounting period for which you must report your taxable income and business expenses, and the law requires you to operate according to a consistent tax year. The most common is the most obvious: the calendar year. However, businesses can also report based on a fiscal tax year and a short tax year.

Here are some tips for choosing the right period for your small business.

CALENDAR TAX YEAR

This is a simple and intuitive method adopted by many small business owners, requiring you to track and report income and expenses to the IRS much like individual tax payers do: on an annual basis from January 1 to December 31.

Whether you should use this method is typically determined by how your business is legally structured. For example, if you are a sole proprietor, there is no separation of your business and personal taxes, so a calendar year method is typically required. Likewise, business partnerships or limited liability companies (LLCs) also will generally use the same tax year most business owner(s). S corporations and personal service corporations will also use a calendar year in most cases.

Generally, anyone can adopt the calendar year. However, if any of the following apply, the IRS requires you to adopt the calendar year:

- You keep no books or records
- You have no annual accounting period
- Your present tax year does not qualify as a fiscal year
- You are required to use a calendar year by a provision of the Internal Revenue Code or the Income Tax Regulations

FISCAL TAX YEAR

Many corporations and larger firms operate on a fiscal tax year basis – a period of 12 consecutive months ending on the last day of any month that isn't December. For small businesses that might not have the accounting expertise on-hand to keep everything reconciled, a calendar tax year is easier to manage. But there are exceptions where it may make sense to consider a fiscal year. For example, if you operate a seasonal business, reporting income by calendar year could split your season and give a distorted view of income and expenses.

Likewise, if your business shows most of its expenses in one year and income in another, it may be worth looking into a fiscal tax year so that both periods are included in the same 12-month set.

SHORT TAX YEAR

Technically, a short tax year (less than 12 months) is not an annual accounting period; instead, it applies to businesses that didn't exist for the entire tax year or those that changed their tax year period during the year.

If you started your business any time during the tax year, you still need to file a tax return for the time you were in existence. Requirements for filing the return and calculating tax owed are generally the same as the requirements for a return for a full tax year (12 months) ending on the last day of the short tax year.

Can You Change a Tax Year?

Once you've adopted a tax year, you may need to get IRS approval to change it. Typically, businesses that change their legal structure may wish to shift from a calendar year to a fiscal year method. In these cases, you will need to file Form 1128, Application to Adopt, Change, or Retain a Tax Year.