BDA Tool One — Preparatory meditation and writing for conference registrants:

Please read BDA Tool One in the BDA Tools pamphlet, then spend several minutes reading and meditating on the details below. Ask yourself: "Which of these unhelpful habits am I currently practicing and what will I need to do to change them?" For those habits which you cannot imagine letting go of, please do some writing. No long essays are necessary, just a few paragraphs or a bulleted list in direct answer to the question: "What needs to change to keep my business and personal money separated?"

> *BDA Tool One: "We keep separate professional and personal financial records and bank accounts."*

Separating professional and personal cash and bank activities will require discipline and commitment to change bad habits into good ones (or unhelpful habits into helpful ones, if you prefer). Below are the most common unhelpful habits related to commingling funds. This assumes that we have now or will soon establish a business checking account, separate from our personal bank accounts. This is neither tax nor legal advice, but simply a sharing of our experience on this topic:

Mixing personal and business transactions: A business entity is distinct and separate from its owner or owners. Some small business proprietors might be tempted to use existing personal checking accounts for business transactions. Part of ensuring accuracy in the financial statements of a business is having the reconciled checking account balance on the company books that matches the bank statement. This may be much more difficult to do accurately if there are personal transactions in the company bank statement or vice versa.

Paying personal bills from a business checking account: This is not recommended because the payee trail is not accurate for the business. There will not be a record of this payment for personal files, and the transaction might cause concern and distrust during an audit. This absolutely should not be done with certain entities, such as when others' assets are held in trust, unless we're willing to spend some time in jail.

Making business purchases from cash in pocket: Many times these types of expenses never get recorded on the books or get recorded at some later date when the receipt is found (in the glove compartment of a truck, for example). This violates IRS control expectations for handling cash transactions.

Purchasing business and personal items on the same receipt: It is possible that the personal items will not be deducted from the receipt or bill prior to recording on the books of the business. It is just as possible that the entire bill will be paid personally and that the business items will never be expensed on the organization's books.

Handling payments to employees and contractors improperly: When an individual is paid for labor on behalf of an organization, that person is either an employee, an independent contractor, or casual labor. Taxes must be recorded and withheld accordingly. In rare cases, payments, which are made to a single individual in a year and which total under the minimum required, may be expensed as casual labor.

Handling payments to employees and contractors improperly — continued: The ability to pay a person as a contractor depends upon meeting certain qualifications. All other payments to individuals are considered payments to employees, for whom paperwork must be filled out and taxes must be withheld and paid to the government. The government applies heavy penalties for errors in this area. It is also prohibited to pay certain employees a set annual salary when they should be paid as hourly workers eligible for overtime pay. Be sure to check the labor laws frequently and conform to the current state and federal laws.

Posting refunds through the personal account instead of the business account: A refund of an overpayment on a bill should be credited to the appropriate expense category. This is not income, but it is money that belongs to the business. It is a reduction of a specific expense.

A refund to a customer for a sale should be debited to the appropriate income category. This is not an expense. It is a reduction in income. A business may want to track the amount of refunds and allowances and will create a separate category for this purpose. The category should be created as an income category or subcategory that would normally have a debit balance.

Taking money out of a business inappropriately: The specifics of how to pay an owner or owners from the proceeds of an organization should be discussed with a CPA, since this affects the tax situation for a business and for the owner(s) personally. Any transactions between closely related parties need to be handled carefully. Different types of entities require different types of transactions and record keeping.

In a proprietorship or partnership, for example, which includes many LLCs, an organization would write a check to an owner. This would be posted as a credit to cash and debit to the owner's distribution account in the equity section of the balance sheet. In the US, a Schedule C would then be filed with the owner's 1040 tax return; and taxes would be paid on the net income of the business, regardless of how much of that net income was actually paid to the owner. In whatever country you may live, please check with an accountant to ensure you are filing the correct tax forms on time.

In a corporation:

Owners may pay themselves a salary.

Owners may personally purchase the land and buildings used by the business. Owners can then charge a fair market rate for rent.

Owners may personally loan the business money. Owners can then receive loan payments with interest. *For our purposes, in BDA, we recommend paid-in capital instead of loans.*

Owners may earn dividends.

As a separate legal entity, a corporation files its own tax return to pay taxes on business income. Only the money that owners receive from a corporation — either directly or indirectly, such as unearned benefits like personal mileage on a company vehicle — should be taxable income on personal tax returns.