THE ACCIDENTAL ENTREPRENEUR | *By Sarah E. Needleman*

Why It's Worth Paying for a Tax Pro

To save money last year, Anthony Fasano tried preparing his new business's first tax return on his own. Then reality sank in.

"I realized I really had no understanding of the tax laws from a business standpoint," says Mr. Fasano, founder of Powerful Purpose Associates, an executive-coaching company he runs out of his home in Ridgewood, N.J. "I was just winging it."

Mr. Fasano started the business in 2009 as a side project while working for an engineering firm. But when his wife got laid off from a government job last year, he turned it into a full-time endeavor, sensing it would prove more lucrative for his family.

After spending roughly 20 hours trying to figure out the returns, Mr. Fasano ended up paying $500 to have an accountant finish the job, at which point he learned that he had overlooked the need to file 1099 forms for his four contract employees. "I didn't know that had to be done at all," says Mr. Fasano. "I should've gone to an accountant in the beginning."

This tax season, entrepreneurs operating on a tight budget may be tempted to forgo professional help in preparing their companies' returns. But experts say the investment is typically worthwhile—at least for those just starting out—to maximize deductions and avoid penalties. Tax specialists can help ensure that business owners don't pay Uncle Sam too much or too little and help identify all the tax breaks they're eligible to receive.

Accountants typically charge between $250 and $500 to prepare a start-up company's tax return, says Keith Hall, national tax adviser for the National Association for the Self-Employed, a nonprofit business group in Washington, D.C.

This year, the filing deadline for most corporate entities is March 15. For sole proprietorships and partnerships, the deadline is April 18. Limited liability companies must choose to file as a corporation or as either a

Elwood Smith

sole proprietorship or partnership.

Business tax returns are undoubtedly complex. They include a vast number of rules and options that frequently change. For example, the recently enacted federal health-care law includes a new, temporary tax credit for small businesses that cover at least 50% of the cost of health insurance for some employees, among other qualifications.

"Most people can do the tax return themselves, but it is a hassle," says Mr. Hall. "It's about how much you want to spend on Advil for the headaches you're going to get."

Lana Goldenberg says she lost out on roughly $1,000 last year by inadvertently misclassifying certain deductions when preparing her start-up's first tax return. "It's not a huge amount of money," she says, "but for a small business it matters."

Ms. Goldenberg launched her marketing consultancy out of her home in Marina del Rey, Calif., after getting laid off from a job in the same field in 2008. For her 2010 tax return, she says she's hired an accountant for about $300.

There are a number of deduction options that entrepreneurs may not be aware of. For example, if you've been running your business out of your home, you can deduct a percentage of your rent or mortgage interest, utility bills and repairs, says Cathy B. Goldsticker, a tax partner at accounting firm Brown Smith Wallace in St. Louis, Mo.

If you've been using your personal vehicle for your business, you can deduct however much you spent on gas, maintenance and tolls for this purpose. "Just make sure you have the records to show they're truly business-related deductions," Ms. Goldsticker says.

One tax break in particular that entrepreneurs won't want to miss: the ability to deduct up to $10,000 in start-up expenses when filing a business's first tax return. These include items or services purchased "prior to actually opening your doors," such as software for writing up a business plan, says Scott Berger, a principal at accounting firm Kaufman Rossin & Co. in Boca Raton, Fla.

But entrepreneurs may not realize that not every resource purchased to get a business up and running qualifies as a start-up expense. For example, the Internal Revenue Service doesn't consider computers, office furniture, machinery and other assets that last more than one year as such, says Mr. Berger. (However, many of these items can still be fully deducted either over the course of their lifetime in small amounts or, for 2010 returns, in one fell swoop if they meet certain qualifications.)

Oren Salomon says he regrets preparing his start-up's first tax return on his own this year to save money because he grossly underestimated how much time and energy the job would take. "The process has been very arduous and confusing," he says. "So far I've spent at least 25 hours and I'm maybe halfway done."

Mr. Salomon co-owns Mozign, a Dallas designer and developer of smartphone applications. He started the business with a friend last year after graduating from the University of California, Berkeley, because he wasn't able to land a job.

Next year, Mr. Salomon says he plans to hire an accountant. "It will be totally worth the money," he says. "I'd rather be working on product and spending my weekends with my girlfriend."

Email: sarah.needleman@wsj.com