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●● **COVER STORY**

**"What do I need to  
know about taxes?"  
asks HEIDI JOHNSON,  
who started her own  
business last year.**

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■ **HEIDI JOHNSON,**  
A PEDIATRIC NURSE  
IN WASHINGTON,  
D.C., LAUNCHED  
HOUSE CALLS ON THE  
HILL LAST YEAR.

## I started my own business last year. How do I handle the taxes?

**HEIDI JOHNSON OF WASHINGTON,** D.C., has been a pediatric nurse practitioner for 15 years. After her 3-year-old twins started school a few months ago, Johnson left her job at a pediatrician's office and launched her own business making house

calls to families on Capitol Hill. "I haven't made much money yet," she says, "but I'm wondering—what do I need to know about taxes and what can I deduct?"

Becoming self-employed is a tempting alternative for entrepreneurial spirits like

Johnson as well as workers who have lost their job during the recession. But it means dealing with a whole new layer of tax hassles. The good news is that you can deduct a lot of expenses, especially when you first start your business.

You'll need to submit Schedule C to report your business income and Schedule SE to figure your self-employment tax if your net earnings for the year are more than \$400. But you can deduct the cost of equipment you buy for your office, such as a computer and phone system, plus what you pay for advertising, accounting services, travel and fees for professional conferences, as well as 55 cents a mile for business travel in 2009 (or 50 cents per mile for 2010). You can also write off the cost of renting an office or, if you use space in your home exclusively for your business, take a home-office deduction and write off part of your mortgage interest or rent, utilities, and home insurance.

You can deduct most expenses entirely in the year you incur them, unless they are larger than your business's net income for the year. In that case, you may be better off depreciating some equipment costs over several years, says Robin Christian, senior tax analyst with the Tax & Accounting business of Thomson Reuters.

If you expect to owe at least \$1,000 in tax for the year, you may need to file quarterly taxes to avoid a penalty (see Form 1040-ES at [www.irs.gov](http://www.irs.gov)).