

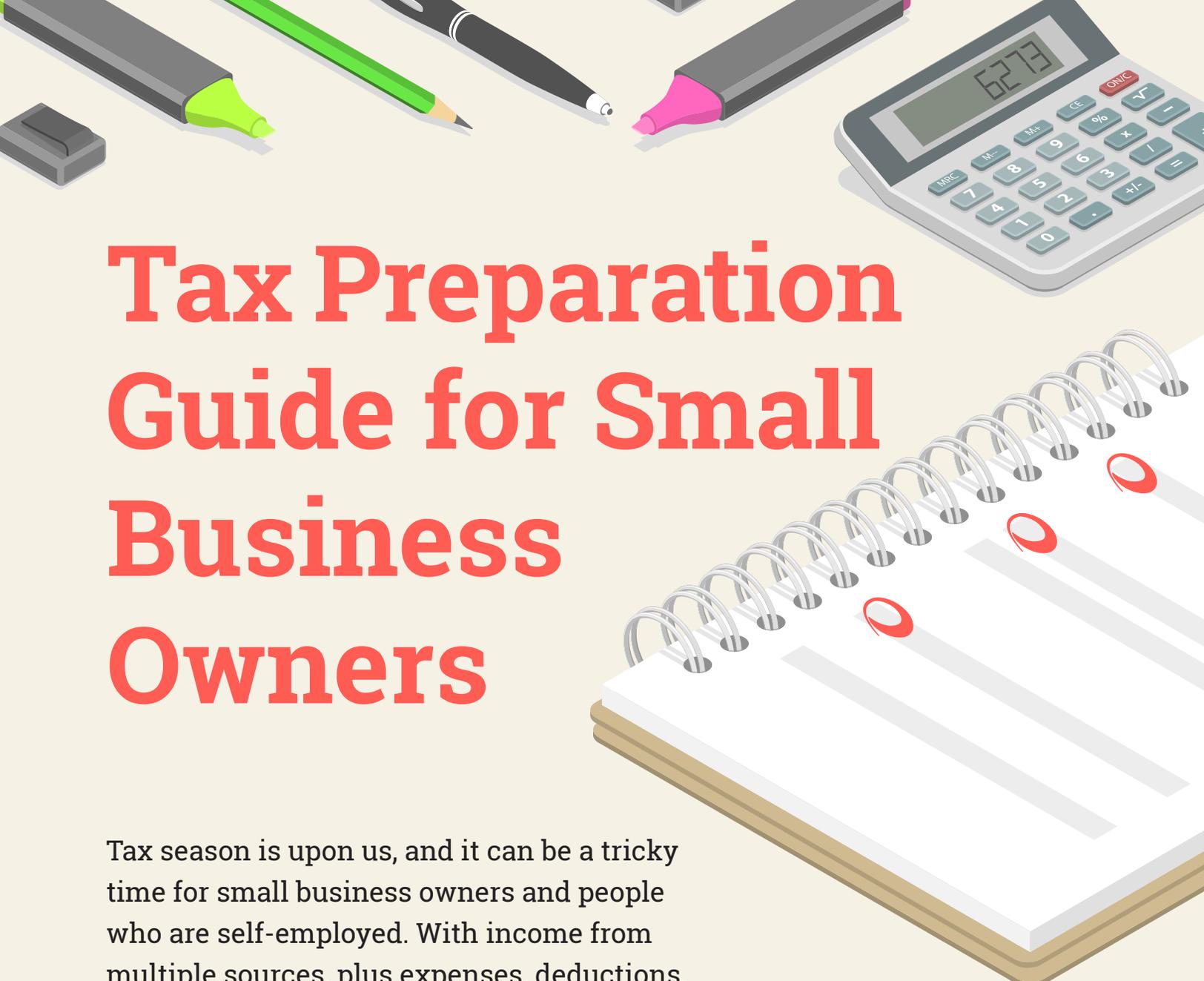
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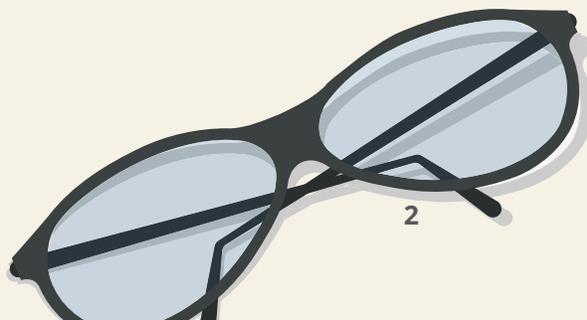


Tax Preparation Guide for Small Business Owners



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Tax season is upon us, and it can be a tricky time for small business owners and people who are self-employed. With income from multiple sources, plus expenses, deductions, and investments, navigating your taxes can take precious time you likely just don't have. Here's a guide to make preparing your taxes just a little bit easier—think of it as an entrepreneur's roadmap on the journey to stress-free taxes.



Start with the Basics

When it comes to preparing taxes, start early! That April 17 deadline doesn't mean you should start gathering forms and information just a few days before. Starting early gives you more time to make sure information is correct and ensures you aren't rushing at the last minute.

First—do you even have to pay business taxes? If you earned more than \$400 in self-employment income, the answer is yes. If your business was at a loss for the year, meaning business expenses were more than income; you can usually deduct the loss from your gross income. People who are self-employed will likely have to pay self-employment (SE) tax in addition to their income tax at the rate of 15.3%. It's basically the equivalent of the Social Security and Medicare taxes that traditional employees pay.

Every business needs a tax ID number, which can be attained for free from the IRS. Even people who are self-employed and only work for themselves should have a business tax ID to help separate personal and professional expenses. Companies that have employees are required to have a tax ID and can't hire employees or contractors without it.

Before filing your taxes, you'll need to gather records of all your business income and expenses for the year. That can include things like:

- payroll records
- balance sheets
- receipts from business purchases
- business savings account interest forms
- cost of goods sold, including inventory records
- and other expenses



Successfully preparing taxes starts with filling out the correct forms



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Companies that have used accounting software or a payroll system throughout the year should be able to find the correct information relatively simply. Most accounting software, such as [QuickBooks](#) or [FreshBooks](#), can easily generate expense reports for taxes or even partner with tax reporting software.

One of the trickiest areas for many micro-business owners is navigating payroll taxes. Approximately one-third of all businesses get fined each year for not handling payroll taxes correctly. Many tax experts recommend using a third-party payroll service like [Gusto](#) to avoid mistakes that can happen when small businesses handle payroll on their own with spreadsheets and paper. These programs create reports and make sure everything is done above board.

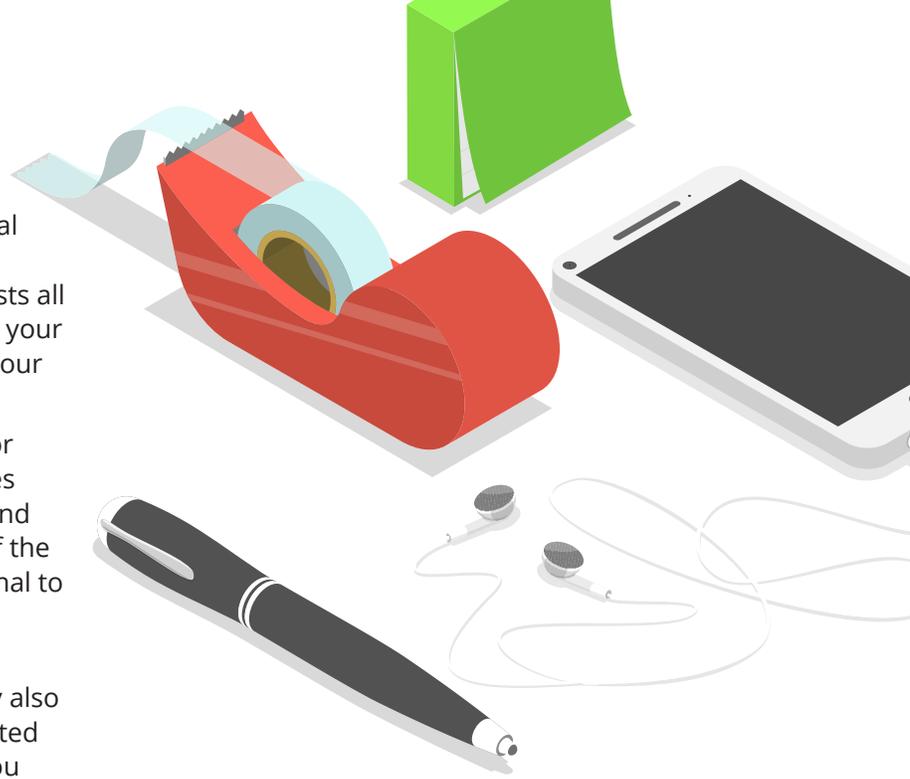
Filing the Right Forms

Successfully preparing taxes starts with filling out the correct forms. Schedule C or Schedule C-EZ are used to report income or loss from a business as a sole proprietor. In general, if you have expenses of less than \$5,000 you can file Schedule C-EZ; more expenses require Schedule C. Self-employment tax is reported using Schedule SE (Form 1040). The

Schedule C form can be added to your personal tax return for any kind of company except a corporation. The form is only two pages and lists all possible business expenses to help determine your business gain or loss, which is then added to your personal tax return.

Things get tricky when filing as a partnership or a multi-member LLC. These types of companies require additional forms, such as Form 1065 and Schedule K-1 that show each person's share of the company. In most cases, using a tax professional to help file can relieve much of the headache.

Just like personal taxes, business taxes can be e-filed for quick resolution. Filing electronically also helps funds from a tax return be direct deposited much faster than waiting for a paper check. You can also file by mail by sending paperwork to the addresses listed on the last page of Form 1040.



Helpful items to have ready before preparing taxes

- ✓ Capture all your income
- ✓ Gather your bank statements
- ✓ Collect all out of pocket expenses
- ✓ Update your mileage log

Common Deductions and Credits

After expenses and revenue has been calculated, taxpayers have the opportunity to write-off certain expenses and get money back through deductions and credits. When growing a business, this is a crucial step that allows the tax system to work for you.

There is a huge number of deductions and credits small business owners may be able to use, but here are a few of the most common entries:

- **Home office.** In order to count this, the space has to be set aside solely for business purposes and can't ever be used for personal reasons. But it doesn't have to be an entire room. If there is a desk or table solely used for work, that percentage of your home's square footage and the cost of utilities and mortgage can be deducted.
- **Office furniture and supplies.** Items bought over the year like furniture, copiers, and computers can be deducted in full.
- **Mileage.** Driving for business can be deducted with careful documentation of the trips that were taken and how far you drove. You can deduct the total mileage or the percentage of work-related car expenses against personal car expenses, like gas, repairs, and insurance.
- **Insurance premiums.** People who pay out of pocket for health insurance can deduct all of the premiums, but only if you aren't eligible to

get insurance from any other source, including through your spouse's employer.

- Other deductions include legal and professional fees, advertising, retirement investments, mortgage insurance, contract labor, depreciation, and more.

Most small businesses will benefit more from deductions, but there are some credits that can still apply:

- **Business upgrades.** If you added eco-friendly upgrades to your office or made it more accessible to people with disabilities, you could be eligible for a credit.
- **Hiring new employees.** Small business owners who hired veterans and other types of employees can also get a tax credit.
- **Health care.** Small business owners who cover at least half of the cost of their employees' health care can get some of those costs back. Companies with at least 10 employees that make less than a certain amount can earn back full credit, and companies with less than 25 employees who earn slightly more are eligible for a partial credit.

Building a business is time-consuming, but don't gloss over tax preparation

Hiring Children

Many small business owners, especially those that are just getting started, take advantage of their children's labor. Instead of paying them under the table or not even paying them at all, actually hiring your child and creating a W2 can end up saving thousands of dollars at tax time. Experts at HireYourKid.com say that creating a real job description with an annual salary turns child labor into a fully deductible business expense. Even better, children under the age of 18 can earn up to \$6,350 in 2017 (\$12,000 in 2018 under the new tax plan) and not have to pay any kind of taxes—they don't even have to file. Creating a paper trail and formally hiring your child is not only a way to save money, it is smart for your family business when taxes come due.

Other Things to Consider

Building a business is time-consuming, but don't gloss over tax preparation. The IRS can always come back after the fact and audit individuals and businesses years after taxes were filed, so keep a record of everything and make sure it matches your company's books. A paper trail keeps things clearer and protects you in a worst-case scenario.

Although it is possible to amend a tax return, it is much easier to include everything from the very beginning, so take time to pull together the necessary paperwork and get prepared before you jump in to actually filing.

If you need more help or have any questions, reach out to our [business tax experts](#). No matter if you're starting a business or have been around for years, NASE representatives are here to help your tax season go more smoothly. ■



Still unsure about last month's article on Mobile Web Apps and Responsive Website Design? Read on to find out more.

Small Business Technology

Responsive Website Design vs. Mobile Web App

How they work on your mobile device. Also, new business website and apps on the cheap!

A responsive website is a site built so that it automatically detects what the screen size of the device you're using is as well as other limitations such as the browser type and any secondary applications that might be necessary for the site to function correctly. Then, the website automatically modifies the content to fit the constraints. The problem with responsive sites is that it's simply impossible to create one site that works with all screen sizes, browsers and other secondary applications consistently. The factors are too numerous to go into but this is often the preferred option for many companies as it is a more cost friendly option.

A responsive website can be compared to a toolbox in the garage. In a toolbox, you probably have a set of tools to handle the majority of fix-it jobs you might need to tackle around the house. However, every once in a while you're going to encounter a job that you don't have the right tool for. In this case, you might not be able to complete the job.

A mobile web app is an application that is designed for mobile devices (tablets, phones, etc.). Unlike a website, a mobile application is designed specifically for the device. Designing applications for Apple devices can be quite different that designing for Android. Also, before the installation of an application is typically allowed on a device it must be go through a lengthy approval process. If modifications are made, the process must be repeated. This is not true with a responsive website.

The advantage to mobile applications is that it can take advantage of tools not available to web applications. An application such as this can usually

access photos, documents and other items typically stored on a device as well as take advantage of functionality specific to the device.

Let's go back to the toolbox analogy. As you recall, the toolbox that makes up a responsive website has a general assortment of tools. However, a mobile website toolbox has only a specific set of tools and you know that you have everything you'll need. This can be done because you know exactly what to expect.

So which approach is better? More often than not small businesses start out with a responsive website as that approach makes the most financial sense because it's cheaper to develop. Further down the road a mobile application is built to offer a more detailed user experience.

Creating a website today is entirely different than just a few years ago. It's much easier and cheaper to get started. You can be as involved or uninvolved as you wish. The important thing to remember is that you should make the site an expression of your company and think about what it is that you want to project to your prospective customers.

If you search the internet you'll find many services offering intuitive interfaces that allow you to make a rather attractive looking website without spending a lot of money on expensive programmers. Most basic website such as this can cost anywhere from \$5-\$15 per month and don't have any long-term contracts.

Don't be afraid to experiment. You're not going to break anything. If you get into trouble, help is here! Your first stop would be the tech support team of your new website hosting company. The second... ask a **NASE expert!** ■



Tax Talk

Ask the Expert

Question:

I am getting all of my stuff together for this year's tax return and was wondering...should I hire a CPA or enrolled agent or should I do this myself?

Answer:

This is a great first question in the quest to complete your tax return and is the first question you should answer each and every year. There is certainly no requirement to hire a professional and it is my concerted opinion that a vast majority of us are totally capable of preparing the tax return independently. This is particularly true today with the mountain of information and specific help available right on line. Websites like NASE.org and IRS.gov can be invaluable at answering questions and solving almost all tax related issues.

Having said that, it is always a good idea to have a tax professional help with the return, particularly in years that are more complicated than normal. If this is the first year in filing with your new small business, or you have acquired some major equipment and will have depreciation options, or some other unique complication, then this is a good year to consider using a

professional. If, on the other hand, you expect this year to be basically the same as last year then perhaps this is the year to prepare the return yourself. If you choose to prepare the return yourself, consider using some automated tax preparation software such as [TurboTax](#) (15% discount with your [NASE Membership](#)) or TaxCut. The number one reason for getting that unwanted letter from the IRS asking about your return is inadvertent math errors. Simple math mistakes, number transposition, incorrect social security numbers, etc. A qualified software package will not only help you with the detailed forms but will also eliminate most of the mathematical errors.

Also keep in mind that these two choices are not necessarily

mutually exclusive. You might consider doing the tax return yourself using a software application and then have your tax professional review the return for you. They will possibly charge you less to perform a review, maybe just over a free lunch, but still be able to point out any glaring weaknesses or omissions.

Lastly, if you do the return yourself don't forget about those deductions that are most commonly missed. Make sure to include any business use of your personal vehicle, the home office deduction if applicable, and never ever forget to consider maximizing any available retirement plan contribution that can save a significant amount of tax and help provide for your future. ■



As always, don't forget that you are not alone. Bookmark our website at NASE.org as well as the IRS website at IRS.gov you will always be able to find the help you need.

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Creating a job for your child can be a rewarding experience for both you and the child. A job can promote maturity, understanding, a sense of pride and self-worth. However, creating this new job will do one thing for sure, and that is save you thousands of dollars in taxes.



NASE Scholarship

The NASE offers to help ease that financial burden by offering \$3,000 educational scholarships to legal dependents of NASE Members that are between the ages of 16 to 24. Since 1989, the NASE Scholarship Program has awarded more than \$1.8 million to members' dependents.

[Click Here](#) to apply.

Trump Gives First

STATE OF THE UNION

President Trump gave his first **State of the Union** address on Tuesday, January 30, celebrating his one year in office and successful passage of a key campaign promise, comprehensive tax reform.

The State of the Union continues to serve as a platform for the President to celebrate legislative wins and propose his vision for what key initiatives the congress and country should turn its attention to in the coming months. For President Trump, this State of the Union allowed for him to take a self-proclaimed victory lap following the passage of the biggest change to the US tax code in decades.

The President also emphasized other key domestic and international policy positions, including: infrastructure, national security, immigration, trade, and his hopes to tackle these issues in a bipartisan effort.

Statistically, the Union is strong and continues to benefit from strong reports of low unemployment, historic stock market performance, and continued employment growth, however, there continue to be significant policy hurdles that the government needs to overcome, including long term funding of the government and addressing the long-term issue of the DACA population.

While the past year has been bumpy, President Trump was able to coast on the strength of the economy and marginalize some of his more divisive policy actions. We will see if another 365 days nets the same results. ■

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