

SelfInformed

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The Six Things You Must Know to File 2016 Tax Returns for Your Small Business

Tax season is upon us, and many small business owners are scrambling to pull together all the documentation needed to complete their returns. Tax preparation is expensive, time-consuming work for business owners, even for those who hire professional tax preparers. And no wonder. While the tax code in 1955 was 409,000 words, today it is around **4 million** according to a National Taxpayer Advocate report. Just to get a handle on that, that's **five times longer than the Bible**, both old and new testaments. "If tax compliance were an industry, it would be one of the largest in the United States," the report says.

Changes are made to the tax code at the average rate of once a day, so business owners must stay alert in order to avoid a stumble that may trigger an audit or cost money in penalties. Whether you are a small business owner, a micro business owner or a family business owner, The National Association for the Self-Employed (NASE) would like to offer you some guidance to help you pay as little as possible in taxes, avoid IRS hassles and reduce your tax anxiety.



1. BE AWARE OF TAX FILING DATE CHANGES FOR 2017

Check with your tax preparer or www.IRS.gov for filing dates for other types of businesses and those that don't use the calendar year.

PARTNERSHIP RETURNS

Must be filed by March 15
A month earlier than last year

C-CORPORATION RETURNS

Must be filed by April 15
A month later than last year

W-2 AND 1099 FORMS

Must be filed by January 31
A Month earlier than last year

Check with your tax preparer or www.IRS.gov for filing dates for other types of businesses and those that don't use the calendar year.

2. CHECK YOU HAVE ALL RECORDS YOU NEED TO FILE 2016 TAXES FOR YOUR SMALL BUSINESS

Ideally, you have been organizing your tax information throughout the year. But sometimes things get crazy when you are an entrepreneur starting a business; sometimes there aren't enough hours in the day. But please know you cannot put this off any longer. If you still need to organize documents for your taxes, do it today.

Ask your tax preparer for a small business preparation checklist if you have not yet received one. If you are doing your own taxes, you can download a free **Small Business Prep Checklist** from H&R Block or a **Tax Preparation Checklist** from Intuit, the makers of TurboTax.

Here is just some of the critical information you or your tax preparer will need to prepare your taxes:

- Income
- Cost of goods sold and inventory records
- Expenses including communications, marketing, transportation, client entertainment, parking, travel, business insurance, office supplies, rent, vehicles, travel, professional fees, home office and more
- Records of assets, liabilities and business owner's equity
- Depreciation information
- Money paid to contractors
- Employee salaries
- Records of acquisition and disposition of capital assets





3. DEDUCTIONS CAN SIGNIFICANTLY LOWER YOUR BUSINESS TAX LIABILITY

You can't afford to throw money away, no matter if you are growing a business or just starting a business. One of the advantages of having your own business is that you can get a tax break on items you buy such as cameras and computers. Some expenses you must depreciate; depreciation is an income tax deduction that enables you to recover the cost of the property over time as it deteriorates. Most tangible property is depreciable.

There are many types of business expenses, but they may include

- Office rent
- Office supplies
- Furniture
- Equipment
- Home office rent
- Home office supplies
- Client entertainment expenses
- Business travel
- Start-up expenses. If you started a business in 2016 and it became a viable business, you can usually deduct up to \$5,000 (with some exceptions).

For more information, see *IRS Publication 535, Business Expenses* on the IRS website.

4. KNOW THE FIVE TYPES OF BUSINESS TAXES

Even if you have just a family business or a micro business, you must be aware of the types of business taxes you may need to pay.

Income Tax

All businesses except partnerships must file an annual income tax return. Partnerships file an information return. The form you use depends on how your business is organized.

- If you have a sole proprietorship, you can report your business income and expenses as an attachment to your personal income tax return by filing a Schedule C attachment. See **Schedule C (Form 1040), Profit or Loss from Business** and **2016 Instructions for Schedule C** on the IRS website.
- If you have an LLC and are the sole owner, you may also use a Schedule C.
- If you have a corporation or would like to file your taxes as a corporation even though you have an LLC, you must prepare a separate corporate tax return on **Form 1120**. You can find the **2016 Instructions for Form 1120** on the IRS website.
- A Schedule C is much simpler than a Form 1120, and a Form 1120 asks for many details that are often not relevant for small businesses.

Estimated Tax

- If you are a sole proprietor or have a partnership or an S corporation you must make quarterly estimated payments.
- Exceptions
 - ▶ You think you will owe \$1,000 or less in taxes
 - ▶ It's your first year of operation
- Payment dates for most businesses in 2016 are
 - ▶ April 18
 - ▶ June 15
 - ▶ Sept. 15
 - ▶ Jan. 17, 2017
- For more information on estimated taxes see **Publication 505** on the IRS website

Employment Tax

Assuming you have employees, you will need to pay employment taxes.

- Social security and Medicare taxes
- Federal income tax withholding
 - ▶ **Form 941** is the Employers Quarterly Federal Tax Return. Use it to report wages you have paid, tips your employees reported to you and federal income tax you have withheld. See **Instructions for Form 941** on the IRS website.
- Federal unemployment (FUTA) tax
 - ▶ The FUTA tax, along with state unemployment taxes, is to fund unemployment compensation.
 - ▶ See **Form 940**, Employer's Annual Federal Unemployment (FUTA) Tax Return and **Instructions for Form 940** on the IRS website.

For additional information, refer to the **Employment Taxes** page on the IRS website.

Self-Employment Tax

- Self-employment tax (SE tax) is a social security and Medicare tax mainly for individuals who work for themselves. Generally speaking, you must pay self-employment tax and file a **Schedule SE** if you make \$400 or more, though there are exceptions. See the **2016 Instructions for Schedule SE** (Form 1040).
- As a business owner, you can claim half of what you pay in self-employment tax as a deduction. That means a \$6,000 self-employment tax payment will reduce the amount income on which you owe taxes by \$3,000.

Excise Tax

An excise tax is a tax on specified products such as alcohol and cigarettes. Excise taxes can also be imposed on activities such as gambling. You may have to pay excise taxes if you

- Operate businesses of the type that are specified
- Manufacture or sell products specified under this tax
- Use specified types of services or products
- Receive payment for specified services

See IRS **Publication 510** on excise taxes for more information.

To find out more about all of these five types of business taxes, see the **Business Taxes** page on the IRS website.

5. DIFFERENT LEGAL ENTITIES REQUIRE DIFFERENT TREATMENTS AND TAX FORMS

The legal entity of your business will have a big impact on your tax liability. For example, C corporations can deduct a wider range of expenses, but they are subject to double taxation unlike an S corp. We have given some examples of tax forms in the previous section. For detailed information on the forms you must file according to your business structure, see the appropriate link on the IRS website:

- **Sole Proprietorships**
- **Partnerships**
- **Corporations**
- **S Corporations**
- **Limited Liability Company (LLC)**



6. DETERMINE IF AN ENROLLED AGENT, CPA OR ATTORNEY SHOULD PREPARE YOUR TAXES

71% of small businesses use tax preparers from outside their company, according to a recent **small business report**. Who you use depends a lot on your business. You want to keep preparation costs down, but you want to be sure to get all your deductions and protect your business.

Businesses by their very nature have some tax complexity, so it is prudent to use a tax preparer who is authorized to represent you before the IRS in case of an audit or unforeseen problems. Some tax preparers have only limited authority and cannot represent you before the IRS. Tax preparers who have unlimited representation rights are enrolled agents, certified public accountants (CPAs) and attorneys.

- **Enrolled agents** are licensed by the IRS after passing a Special Enrollment Examination. If your taxes are not too complicated, it may be fine for you to use an enrolled agent.

- **CPAs** have gone to college in their specialty and have degrees. CPAs are accountants who have passed a state licensing examination. Unless you expect problems, this is a common choice for businesses.
- **Tax attorneys** hold advanced degrees in their fields. If you think you may have reason to fear legal action, keep in mind that anything you tell an attorney falls under attorney/client privilege. Attorneys cannot divulge anything you tell them. This is not true for any other tax preparers. Should you be audited or run into complicated tax problems, tax attorneys are also trained negotiators. But if someone else prepares your taxes, you can still hire an attorney to resolve problems later.

TIP: Whoever does your taxes, be sure to check them, because you must sign them and become legally responsible.

KEEPING UP WITH TAX OBLIGATIONS IS ALL PART OF GROWING A BUSINESS

If you were not as organized as you would have liked last year, start now to organize for next year's tax season. It will save you valuable time that could better be spent working on your business, and will enable more precise reporting.



Ask the Expert

Q: *I am pulling together all of the paper work for my tax return to take to my tax guy, what are some things that I may be missing? I don't want to pay any more tax than I absolutely have to, and sometimes I wonder if I am missing deductions that other people are taking.*

A: The most important part of a complete list of your specific deductions is to make sure you have captured all activity during the year. The best approach to help is to have a separate bank account for your business and to truly commit to that bank account. Make sure ALL business expenses are paid with funds from that account and that ALL income related to your business goes into that account. The simple reconciliation of that bank account will then give you confidence that you have captured all of the relevant activity. From there the hardest part is determining on which line to include which expenses. This may seem too obvious, but again, the most important thing you can do to ensure that you pay as little as possible in federal and state income tax is to make sure that you have actually captured all of the expenses that you incurred during the year.

Now that you have captured all of those items that actually cost money, now you can concentrate on those deductions that don't show up in the form of a cash payment. Two commonly overlooked deductions are the business use of your vehicle and the deduction available for the use of a Home Office. These items don't show up in your business bank account and therefore are easy to forget. Check out IRS Publications, 463, Travel, Entertainment, Gift, and Car Expenses and IRS Publication 587, Business Use of Your Home for more detail. Keep good records and take your time reviewing the detail but each of these items can significantly reduce your taxes.

The last thing to do before you tell your tax guy to hit 'send' on the electronic filing is to consider options for retirement contributions. No one will remind you or send you an



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invoice to invest in your own future, so if you don't do it, no one else will. There are lots of options including a traditional IRA and an SEP or Simplified Employee Pension that are as easy to open as opening a new bank account. In most cases you will have until you file the return to make a deductible contribution that can reduce the tax on LAST YEAR'S tax return. Maybe the most important thing that you can invest in is your own future and the IRS will even help you do it by giving you a deduction for your own money. Don't miss out on this one!

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 and you will always be able to find the help you need.



Member Benefits

Visit www.NASE.org to learn more about the following benefits!

SMALL BUSINESS GROWTH GRANTS

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QuickBooks Self-Employed is supporting small business growth by sponsoring the March and April, 2017 NASE Growth Grants.

Apply for a business development grant from the NASE worth up to \$4,000! Designed to help address a specific business need.

Apply Now!

You could receive up to **\$4,000** for your small business through the NASE Growth Grants program. The NASE has already awarded more than **\$600,000** to NASE Members just like you.

Grants can be used for marketing, advertising, hiring employees, expanding facilities and other specific business needs. You could be the next grant recipient. To be eligible for an NASE grant, you must:

- ✓ Be an NASE Member in good standing.
- ✓ Demonstrate a business need that could be fulfilled by the grant.
- ✓ Provide a detailed explanation of how you will use the grant proceeds.
- ✓ Show how the grant will improve your business growth and success.
- ✓ Offer supporting documentation such as a résumé and business plan.

Growth Grants are awarded at the sole discretion of the NASE. Unfortunately, not everyone who applies will receive a grant. Decisions of the selection committee are final and are not subject to appeal. No application feedback will be given. [Click Here](#) for recent grant recipients.

Tax season is officially underway. Make this your most organized tax year yet by using QuickBooks SelfEmployed + TurboTax – and get back to focusing your energy where it matters most: Building your business. [Click Here to get started!](#)

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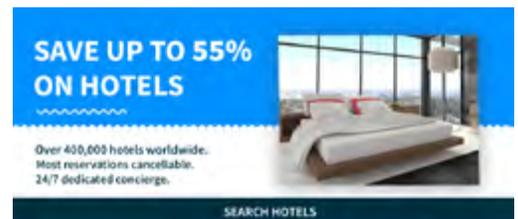
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Member Spotlight



Teaching as Self-Employment

*Lisa Stevenson, D.A. is the Co-founder, Owner and CEO of **Arizona School of Dental Assisting** located in Phoenix, Arizona. The goal of this post-secondary school is to prepare students for entry level positions as a chairside assistant in a dental office's throughout the region. Lisa, along with her brother and other Co-founder recognized the need for well-trained dental assistants and created the company out of a need for hiring strong qualified assistants. The school opened in 2001 and holds 12-week courses throughout the year.*



By doing what we set out to do and producing skilled workers ready to enter a dental office, word of mouth made helped me grow and become successful.

When and why did you join the NASE?

It's been a long time since I joined, however, you offered a way for me to get and afford good health insurance. I have since enjoyed the News Letters and the articles about what the NASE is doing in Washington DC to represent the Self-Employed.

When and why did you start your business?

I started the business in 2001. Prior to that, I noticed that I was having to retrain dental assistants that had come out of a 9 months dental assisting program before I felt comfortable having them in the rooms with our dental hygienists. After speaking with my brother, Dr. Enrico DiVito DDS, we decided to start a new business to train young professionals to be dental assistants.

What challenges have you faced in your business?

The first major challenge we faced was starting out with very little money. By using inexpensive marketing and a strong work ethic, I was able to grow my business. By doing what we set out to do and producing skilled workers ready to enter a dental office, word of mouth helped me grow and become

successful. In turn, this would bring in more and more students and allow me to move out of Dr DiVito's dental office and get my own campus where I continued to grow. My school has gone from 1 employee (me) to 4 employees. From 3 students a class with only 3 classes a years to 125 students a year in about 12 classes per year. My journey was long and hard however I now own and run the school myself without Dr. Divito as a silent partner.

How do you market your business?

While word of mouth continues to be a strong way we drive business, we also advertise in the newspaper, on the internet, radio, and with TV commercials. We have also recently tried placing advertisements in the time leading up to movies at the movie theaters and are currently measuring results.

Do you have any employees?

Currently, I have 3 full-time employees. So if you include me, the business has four full time employees. If the number of students continues to grow, I will explore hiring another full-time position but for right now, the four of us can handle the workload.



What's your schedule like, what's a typical day for you?

I am usually at the school 4 days a week. A typical day is to check over the various everyday functions of the business, do marketing and “ensure the trains are running on time.” I also meet with new students as needed, counsel current students and sign diplomas. Sometimes I also need to speak with all the grant programs to insure students are able to get the proper information to come to the school.

What's the best thing about being self-employed?

The part I enjoy the most about being self-employed is that I am able to pay and treat my staff the way I want to without having to answer to someone else. I also enjoy the ability to help others less fortunate. With scholarships, they can come to school and be able to obtain a job to take care of themselves and their families.". It is a rewarding sense of fulfilment knowing I am helping others with my business.

What's the best compliment you've ever received from a client?

The best compliment that I received was when someone told me that I, “Am a role model and I inspire them to want to be better. That there is hope for anyone to become whatever they want to be if they put their mind to it.”

What's the most important piece of advice you would give to someone starting their own business?

That's an easy one, be humble and do not over spend.



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Learn More in the NASE Member Directory

Learn more about other Self-Employed businesses in the **NASE Member Directory**. You can add your own company to the NASE Member Directory at no charge – it is a free benefit to NASE members.



PRESIDENT TRUMP SPEAKS TO A JOINT SESSION OF CONGRESS

On Tuesday, March 28, President Trump was invited to speak to a Joint Session of Congress, roughly 40 days after his inauguration, President Trump spoke boldly about his vision for America and also highlighting successes by his Administration. Those successful initiatives highlighted in his speech, include:

- Investing billions of dollars in the United States, which will create tens of thousands of new American jobs by American companies;
- Three trillion dollar gain in the stock market since November 8, 2016;
- Hiring freeze on non-military and non-essential Federal workers;
- 5 year ban on lobbying by executive branch officials -- and

a lifetime ban on becoming lobbyists for a foreign government;

- Aggressive regulatory review; imposing a new rule which mandates that for every 1 new regulation, 2 old regulations must be eliminated;
- Approval of the construction of the Keystone and Dakota Access Pipelines;
- Withdrawing the United States from the job-killing Trans-Pacific Partnership.

Bold proposals included in the President's speech included:

- Fair and free trade that promotes American businesses;
- \$1 Trillion investment in infrastructure;
- Reform of the Affordable Care Act;

- Significant investment in Defense spending and repealing sequestration.

The onus for action was squarely placed on the shoulders of Congress during the speech, it remains to be seen how Speaker Ryan and Leaders McConnell will be able to get these initiatives through both Chambers and to the President's desk.

For the National Association for the Self-Employed, efforts to overhaul the tax code and reform the health insurance are our primary focuses in the coming weeks and months. We look forward to contributing and reviewing proposed legislation that bring equity to the tax code and provide health insurance products that comprehensive and affordable.

[Read the full transcript of the President's remarks](#)