

SelfInformed

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3 DO'S & DON'TS *of Filing Your Taxes*





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Navigating business taxes can be a complicated and even scary process, whether you're new to the system or not.

In fact, the surge of the "gig economy" means more Americans than ever will be working through filing business taxes this year. According to the **Gig Economy Index**, nearly one in three US workers are earning side incomes through jobs like freelance writing and Uber driving that could be classified as businesses by the IRS.

That means millions of taxpayers could find themselves learning the ropes of quarterly tax payments, filing extra forms, and keeping records just like small business owners.

Here at the National Association for the Self-Employed (NASE) offers three essential "do's and don'ts" to get your taxes in order before the **April 15th filing deadline**.

Whether you're new to business taxes or you're a seasoned pro, these resources will help you plan ahead and avoid penalties.

1. DO Stay Organized

Organization is half the battle when it comes to getting your business taxes right. It's also an ongoing practice, not something to put off until the last minute.

Keep good records

Keep all your business information in one place — label files and keep them in a dedicated location. Keep computerized files backed up and current. Your best insurance against miscalculations is to use **small business accounting software** like Quickbooks or Freshbooks.

If you didn't have a system in place for your record-keeping before tax season started looming, you need to get your house in order as quickly as possible. Gather all your old tax returns, documents, receipts and records of income so you can access them easily as you crunch numbers.

Before you file, double check all your records. Make sure your numbers are correct.

Remember, the IRS receives copies of any tax forms clients send to you for freelancing or contract work. If your numbers differ from the ones the government has on file, you may have to submit an amended tax return to fix your error.

Beyond your immediate tax day purposes, it's important to retain relevant records for at least three years. If you have property or equipment, hang on to receipts, titles, and other documents until *three years after* the property is no longer in your possession.

Separate personal and business finances

Good record-keeping means separating your work and personal finances. This will make it much easier to track and document business expenses.

Keeping business income in a bank account separate from personal checking and savings make business transactions more transparent in the event of an audit. It also makes your business look more professional

to your bank — an image you will want if you approach potential lenders down the road.

Stay on top of quarterly payments

Remember, self-employed taxpayers who expect to owe at least \$1,000 in taxes need to make quarterly tax payments to the IRS. Those payments, which can be made online through the Department of the Treasury's **Electronic Federal Tax Payment System**, are due on **April 15**, **June 15**, **September 15**, and **January 15** of the following year.

Small business owners and the self-employed also need to file quarterly taxes with their state revenue departments. Due dates on these tax payments can differ from the federal dates, so check your state tax laws.

If you don't pay enough in your quarterly tax payments, you could get hit with a penalty on your tax return. The penalty is either tacked on to your other charges or taken out of your refund.





DON'T Procrastinate

The filing deadline is April 15, but you need to be preparing to get your taxes in before that date.

Don't wait until the last minute! You may end up stumbling over unforeseen details at the eleventh hour, making late filing and mistakes more likely. Procrastination will cost you.

Consider filing online. Besides the convenience of e-filing, it is also safer than sending your return through the mail. You'll also receive any tax refund you're owed sooner when you file online.

Tax preparation software can assist you with both calculating payments and e-filing your returns. **TurboTax, H&R Block, and other software** provide expert support and reliable federal and state filing options. These applications come at varying price points to self-employed and small business owners. If your business is relatively simple, **FreeTaxUSA** may be the most affordable option: free for federal filing and \$12.95 for state returns.

All electronic options will provide swift filing and peace of mind that your returns have reached their destination on time.

If you do choose to file by mail, know that the **IRS considers your return on time** if it is postmarked by the filing deadline.

2. DO Research Deductions

Tax deductions can lower your taxable income. There are a few common deductions that help reduce your tax liability by allowing you to subtract some expenses from your taxable income.

The IRS allows businesses to deduct expenses that are "**ordinary and necessary**," meaning they are common in your industry and helpful to the functioning of your business.

To take advantage of all the available ways to reduce your tax liability, you'll want to itemize your deductions. The IRS lists deductions for both **individuals and businesses and the self-employed** on its website.

Tax software usually suggests deductions you might be eligible for, or you can browse through the IRS lists and pick the ones that are relevant to your situation. These are worth reviewing even if you've gone through your deduction options in the past and don't think you will utilize different ones.

Common business deductions include:

- **Charitable donations** — As long as the charity is legally recognized, provides documentation of your donation, and you can document that your donation wasn't made in exchange for goods or services that benefited your business, you can **claim a charitable contribution as a deduction**.
- **Home office** — The **IRS defines a home office** as a designated space at home used *exclusively* for work. It doesn't have to be a formal "office," but it can't double as a place to do personal things, like your kitchen table or the living room couch in front of the entertainment center. The safest way to calculate this deduction is by the IRS's rule of thumb: \$5 per square foot of office space, up to 300 square feet.
- **Mileage** — This **deduction can be substantial**, but it requires year-round documentation with a detailed mileage log. But if you drive a lot for your work, tracking mileage is worth the record-keeping involved. This is true not only for delivery-based travel, but also for networking, meeting with clients, or running business-related errands. Nowadays, it's easier than ever to keep driving records. Several **mile-tracking smartphone apps** can make calculating mileage deductions far easier and more accurate than paper logs alone.

DON'T Phone It In

Maybe you've been working independently for several years and your business is fairly steady and predictable.

Don't assume you're keeping everything above board by using last year's numbers. You might be under- or over-paying your taxes, even if your income stays the same from one year to the next.

Things in your life might change that affect potential taxes or returns coming your way. Just as in personal taxes, a home purchase, marriage, or birth of a new baby can change your tax information and how much money you can expect to pay or receive in a refund.

State tax laws can also change in ways that don't always make headline news. Your tax liability can catch you off guard if you aren't keeping up-to-date records and running the numbers every year.

3. DO Learn About Self-Employment Taxes

Most self-employed people who turn a profit must pay self-employment taxes — even if the work is just a side hustle. Self-employment taxes are how non-payroll earners pay into Social Security and Medicare.

Independent freelancers are sometimes caught off guard by this tax. If you aren't sure whether or what you may owe, work through the **IRS self-employment tax "interview"** to determine your liability. How you pay depends on the nature of your business.

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Small businesses and self-employed individuals must decide how they are classified.

What if my business is incorporated as an LLC? A Limited Liability Company is a popular option for incorporation, but remember: this is essentially

a state-level designation. For federal tax purposes an LLC must still file as either a corporation, partnership, or sole proprietorship. Each of these categories require different tax forms, which you can find on the IRS website.

If you have no employees and do all the work yourself — even if you’re operating in name as an LLC — you are a sole proprietor in the eyes of the federal government.

Sole proprietors report business income and expenses using a **Schedule C form**. A shorter version of this form, called a **Schedule C-EZ** is available to those with business expenses under \$5,000 and no inventory.

The federal government expects you to file as an individual and pay the self-employment tax by filing a **Schedule SE Form 1040** along with your Schedule C.

Freelancers and independent contractors also fill out a “**Request for Taxpayer Identification Number and Certification**,” known as a W-9, to send to clients for whom they perform work.

Corporations or partnerships with multiple owners have other **tax reporting forms** requirements.

DON'T Muddle Through

If you’re confused by business taxes, welcome to the fastest-growing club in America. The US tax code is a complex system and business owners and the self-employed are responsible for navigating it largely on their own.

Beyond putting in the work of building your own independent business, learning how to dot the I’s and cross the T’s of your tax obligations may be the hardest part of your self-employment journey.

Unlike wage earners filing a W-2, when you’re self-employed the onus is on you to calculate your



own payments, based on how your business is classified. Familiarize yourself with the rules for your particular class of business.

If you’re overwhelmed, one of the worst things you can do is close your eyes and hope for the best. When in doubt, consult an accountant or tax preparation service.

Beyond tax season, establishing a relationship with an accountant is a good idea. An accountant is sound counsel for tax questions along with other kinds of financial considerations you’ll encounter as your business grows. They’ll help you avoid common pitfalls on questions about property and equipment purchases, laws on interstate and international commerce, and more.

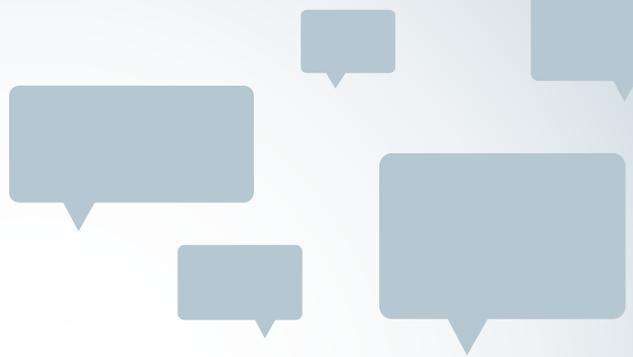
NASE Offers Business Tax Resources

If the resources to hire an accountant for tax season are out of your reach, let NASE guide you through the process. We offer focused tools and resources for freelancers, contractors, entrepreneurs, and small businesses of all types. Our members have unlimited access to expertise from tax and finance consultants.

NASE is here to help.

An advertisement for NASE members' savings. The top part has the text 'Members Save More!' in blue. Below that is a dark blue banner with 'Up to 80% OFF' in white and 'on preferred products!' in smaller white text. The bottom part of the ad shows a row of items: a set of colorful crayons, three clear plastic water bottles, and a green spray bottle. At the bottom left is the NASE logo (National Association for the Self-Employed) and at the bottom right is the Office DEPOT OfficeMax logo.

Let's Get Social!

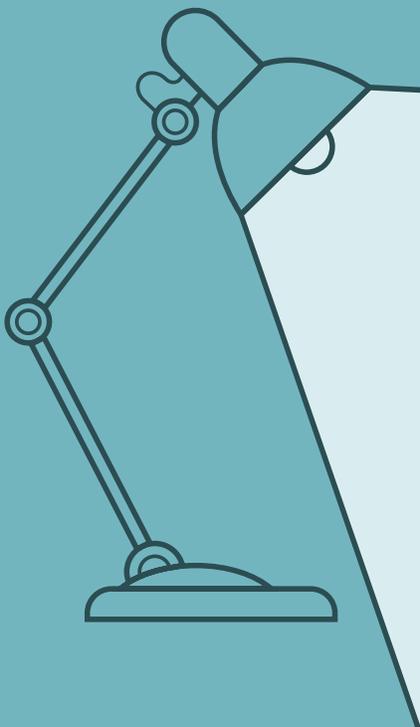


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As an NASE member, you are the driving force for what we do. Promoting self-employment and providing as many self-employed people as possible with our wide variety of benefits is something we do every day. But is it something you do? A great way for you to show your support for the NASE is to Like, Join and Follow us on our social media channels to help spread awareness. If you haven't taken the time already, we invite you to do so now with the links to our social media below:



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We are always looking for NASE Members to feature in our monthly spotlights. If you want free publicity for your business and you are an NASE Member, we can help you promote your business! Simply fill out our "Get Publicity!" form here, and you and your business could be featured in an NASE publication, like our monthly member e-newsletter, SelfInformed.

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TRUMP DELIVERS THIRD STATE OF THE UNION, No Mention of Small Business

On the eve of the Senate acquitting President Trump and avoiding impeachment, the President delivered his **third and final State of the Union of his first term**. While the speech noted in great detail the economic success of the US, it was a bit of a shock that during the nearly 90 min speech, the President did not mention small business or entrepreneurs.

Of course, the President highlighted the continued success of our economy: the creation of 5.3 million new jobs and the lowest unemployment in over half a century. However, the President only mentioned his tax cut bill twice, once highlighting the expansion of the child tax credit and Opportunity Zones.

The President spent most of the time dedicated to domestic policy issues on criminal justice reform, immigration and school choice.

The NASE in an **op-ed published in The Hill** had called on the President to focus on seven key issues for the self-employed:

1. **Retirement options:** Implement creative retirement options for small businesses, such as those included in the recently passed bipartisan SECURE Act, so that all Americans can retire with dignity regardless of job, status and employment structure.
2. **Tax equity and simplification:** Continue to reduce the tax burden on small businesses, while also streamlining the tax code to make it easier and simpler to file annual tax returns.
3. **Health care:** Strengthen the Affordable Care Act by making access to health care more affordable for small business owners and find

additional options for small businesses to gain coverage, or to ensure their continuity of coverage.

4. **Predatory lending:** Crack down on lending entities that use practices that are unfair or abusive, leading to loans that are unwanted, unaffordable or predatory in nature, with high interest rates and hidden fees.
5. **Access to capital:** With the recent Senate approval of Jovita Carranza to lead the Small Business Administration, focus on opening new lines of capital by not only making sure the process is easy to apply for, but also that small businesses readily receive the money in a timely manner to invest in starting or growing business operations.
6. **Promoting entrepreneurship:** Continue to support, reward and foster the growth and expansion of new and existing small businesses through positive public policies.
7. **Deregulation:** Continue to cut more red tape and burdensome regulations, such as unnecessary and excessive licensing requirements, to allow them to spend time on business operations and not just government paperwork.

As you can see, there is much work to be done to support America's small businesses and entrepreneurs. The NASE looks forward to rolling up our sleeves and advancing these key initiatives in the months ahead! ■

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