

# H&R BLOCK tax talks

## Small Business Tax Issues



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## **Prior to H&R Block:**

- Ran my own consulting firm: helping small businesses
- Bookkeeper
- Adjunct professor

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3 Years with H&R Block as Tax Professional.

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Locations

## **Prior to H&R Block:**

- Business consultant
- Manager of the Small Business Institute for UW

# Presentation Topics

- Starting a Business
- Record keeping
- Travel
- Auto
- Estimated taxes
- Payroll
- 1099 – MISC
- Assets
- Losses
- Home Office
- Areas that gets IRS attention



# Starting a Business

## Choice of tax year

- ❑ Calendar year (January 1 – December 31)
- ❑ Fiscal year (begins on first day of selected month; ends on last day of 11th following month).

## Start up Expenses

- ❑ \$5,000 in business startup costs
- ❑ Research, consultants, attorney fees, setting up website etc.
- ❑ Capitalizing

## Accounting method

- ❑ Cash = record income and expenses as paid
- ❑ Accrual = records income as it is earned and expenses as incurred, regardless of when received or paid.
- ❑ Hybrid, a combination of cash and accrual.
  - ❑ Often using accrual for income and inventory and cash for everything else.
- ❑ \*Tax preparers need to know this information

# Payroll Taxes

- ❑ Employers must report wages, tips and other compensation paid to an employee by filing the required form(s) to the IRS.
- ❑ Taxes withheld for federal income tax or social security and Medicare = Form 941
- ❑ FUTA ( Federal unemployment taxes) and SUTA (State Unemployment tax) – Form 940
  - ❑ Due Jan 31 each year
- ❑ High penalties for failure to pay employment taxes
- ❑ Calculating payroll is not easy. Can cause all kinds of issues internally and externally.
- ❑ I strongly recommend using a company like ADP, Gusto, Paychex... etc. doing this for you and they will send in the other forms on your behalf to IRS

# Hiring employees

- Apply for an EIN, Employer Identification Number
- I-9 Employment Eligibility Verification, for each employee (SS card, passport & drivers license)
- Employees:
  - Fill out W4 Employee's Withholding Allowance Certificate
  - End of the year you give them a W2
- Contractors:
  - Fill out a W9
  - 1099 – MISC at the end of the year
- \*Tax preparers need to know who were W2 and 1099

# Form 1099 - MISC

- Any individual or business that you contract with for over \$600 per year
- **The individual cannot be an employee (W2 & 1099)**
- S and C Corps don't need one typically but if they are a small business, send one to be safe.
- You will always send them to:
  - Healthcare Provider
  - Fish purchases for cash
  - Attorney fees
  - Gross proceeds to attorney for legal settlements
- One copy to IRS and one to individual or business
- Must get a W9 from individual or business for their tax payer id. Some Sole Proprietors will use their social.
- Employee reimbursement and bonuses DO NOT go on a 1099- MISC
- You are required to get the 1099- MISC to contractors by January 31st and to the IRS February 28th

# Record Keeping for Taxes

## Keep detailed records

- Scan receipts/ keep electronically filed online (Dropbox or attach image to QuickBooks)
- Write notes on receipts – put notes into QuickBooks
- Keep a mileage log
  - Starting point, Destination, Miles there (or odometer reading), and purpose of the meeting
- Hire a bookkeeper
- Don't use business credit cards for personal expenses or the reverse
- Make sure business expenses are in the business name
  - Cell phone, Faxing Service, UPS shipping service...etc.

# Business Travel



- **Keep Receipts** – Meals, lodging, transportation (airline, taxi, train), laundry etc..
- - Credit Card charges aren't enough without explanation
  - Ex: Seminar and then Disneyland after with family – Write off seminar but not family related travel expenses
  - Ex: Lunch with a client – document who client was, what was discussed, business purpose

Just talking to someone on vacation and exchanging business cards, **does not** make that vacation business travel

# Auto Deduction:

## Actual Expenses vs. Standard mileage rate

- Standard mileage = .575 per mile (2015)
  - You must have a mileage log
  - You must have the beginning miles and ending miles for the year
- Actual Expenses:
  - Gas, auto repair, insurance, maintenance, cleaning, tire, depreciation...etc.
  - Buying/ Leasing a car for business:
  - If a vehicle is used exclusively for business purposes, you may generally deduct the full cost of operating the vehicle
  - If you use a vehicle for business on a part-time basis, you will have to allocate your expenses based on your business and personal use.



# Estimated Taxes and Back Taxes

## *What are Estimated Taxes?*

- Start = After your first year of business
- Based = On prior years taxes paid
- When to file = Quarterly
- Why = IRS wants businesses to pay as they go. Just like your withholding on your personal paychecks
- B&O Taxes (Business and Occupation):
  - State B&O tax is a gross receipts tax. It is measured on the value of products, gross proceeds of sale, or gross income of the business.
  - Calculated on the gross income from activities. This means there are no deductions from the B&O tax for labor, materials, taxes, or other costs of doing business.

# Business Assets

Assets = Building, machinery, computers, software, (anything that has value that you paid for)

- The way to write off assets:
  - Take a deduction in the year of purchase
  - Depreciation of the asset
  - Time your purchase of assets to offset profits
  - Financed assets – write off interest each year
- Assets for Personal use ( Listed Property ):
  - Computer (60% Business/ 40% personal)
  - Car
  - Document the % of use



# Net Operating Losses

- A net operating loss occurs when business expenses exceed business income.
- Wages are included in business income when calculating an NOL.
- Ordinarily, a business with an NOL may carry the loss back only two years.
  - There are exceptions for farm losses and certain other circumstances.
- Important: A business still has the option of NOT carrying a loss back at all.
  - If a loss is not carried back, or a loss remains after applying the carry back provisions, it is carried forward up to 20 years.
- You must elect to waive the carry back period by the extension due date of your tax return.

# Home Office Expenses: Actual and Simplified(Safe Harbor)

- 2 Methods to account for home office:
  - Actual = Intensive record keeping but higher deduction possible (keep all receipts!)
    - % home office represents of total home square feet
      - EX: Home 2000 sq. ft. and Home Office 200 sq. ft. = Home office = 10%
      - Deduct 10% of expenses (electricity, internet, mortgage, rent...etc.)
    - Simplified = Simple calculation based on square footage x \$5 (Max of 300 Sq. ft.)
- Used **regularly and exclusively** for business (not a kids playroom or guestroom)
- Doesn't matter if you rent or own
- Can be an in an apartment, loft, house...etc.
- Does not have to be an actual room – just designated area
- IRS does look at it but not a trigger for an audit like it use to be

# Potential Tax Audit Triggers

- Higher than average income
- Out of proportion deductions
- Rounding numbers
- Ex:\$60,002 rounded down to \$60,000
- Home office deductions- Unreasonable or high
- Claiming business losses year after year
- Filing a schedule C
- Excessive deductions for business entertainment
- Claiming vehicle as 100% business use

# Schedule C – Part 1 Income

## SCHEDULE C (Form 1040)

Department of the Treasury  
Internal Revenue Service (99)

## Profit or Loss From Business (Sole Proprietorship)

► Information about Schedule C and its separate instructions is at [www.irs.gov/schedulec](http://www.irs.gov/schedulec).  
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

**2014**  
Attachment  
Sequence No. **09**

Name of proprietor		Social security number (SSN)
<b>A</b>	Principal business or profession, including product or service (see instructions)	<b>B</b> Enter code from instructions ▶
<b>C</b>	Business name. If no separate business name, leave blank.	<b>D</b> Employer ID number (EIN), (see instr.)
<b>E</b>	Business address (including suite or room no.) ▶ City, town or post office, state, and ZIP code	
<b>F</b>	Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶	
<b>G</b>	Did you "materially participate" in the operation of this business during 2014? If "No," see instructions for limit on losses	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>H</b>	If you started or acquired this business during 2014, check here	<input type="checkbox"/>
<b>I</b>	Did you make any payments in 2014 that would require you to file Form(s) 1099? (see instructions)	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>J</b>	If "Yes," did you or will you file required Forms 1099?	<input type="checkbox"/> Yes <input type="checkbox"/> No

### Part I Income

<b>1</b>	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked	<input type="checkbox"/>	<b>1</b>		
<b>2</b>	Returns and allowances		<b>2</b>		
<b>3</b>	Subtract line 2 from line 1		<b>3</b>		
<b>4</b>	Cost of goods sold (from line 42)		<b>4</b>		
<b>5</b>	<b>Gross profit.</b> Subtract line 4 from line 3		<b>5</b>		
<b>6</b>	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		<b>6</b>		
<b>7</b>	<b>Gross income.</b> Add lines 5 and 6		<b>7</b>		

Part II Expenses. Enter expenses for business use of your home only on line 80.

# Schedule C – Part 2 Expenses

## Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising . . . . .	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions). . . . .	9		19	Pension and profit-sharing plans . . . . .	19	
10	Commissions and fees . . . . .	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion . . . . .	12		b	Other business property . . . . .	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions). . . . .	13		21	Repairs and maintenance . . . . .	21	
14	Employee benefit programs (other than on line 19) . . . . .	14		22	Supplies (not included in Part III) . . . . .	22	
15	Insurance (other than health)	15		23	Taxes and licenses . . . . .	23	
16	Interest:			24	Travel, meals, and entertainment:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel . . . . .	24a	
b	Other . . . . .	16b		b	Deductible meals and entertainment (see instructions) . . . . .	24b	
17	Legal and professional services	17		25	Utilities . . . . .	25	
				26	Wages (less employment credits) . . . . .	26	
				27a	Other expenses (from line 48) . . . . .	27a	
				b	Reserved for future use . . . . .	27b	



Let's take questions!!