

H&R BLOCK
taxtalks

Small Business Tax Issues



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Fill in tax preparer

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– Prior to H&R Block:

- Ran my own consulting firm: 2009 - 2015
helping small businesses
- Bookkeeper
- Adjunct professor

Tax Professional: Raymond Davidov

- 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
 - Research, consultants, attorney fees, setting up website..etc.
 - Capitalizing
- Accounting method
 - Cash
 - 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 (unemployment taxes) – Form 940
- High penalties for failure to pay employment taxes**
- Calculating payroll is not easy. Can cause all kinds of issues internally and externally.

- Your handout has some steps for calculation
I **strongly** recommend using a company like ADP, Zen Payroll, Gusto... 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
 - If you have employees in other states, you must also comply with the income tax laws in those states too
- *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**
 - 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

Ex. You hire a consulting firm that is 2 people but they are registered as an LLC – you would still send one

- 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 and keep them electronically filed online (Dropbox or upload the image to QuickBooks)
- **Write notes on receipts** – put notes into QuickBooks in the memo section-
- 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 – **Keep business and personal separate**
- 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 carryback provisions, it is carried forward up to 20 years.
- You must elect to waive the carryback period by the extension due date of your tax return.

Home Office Expenses

2 Methods to account for home office:

Actual and Simplified(Safe Harbor)

- Actual = Intensive record keeping but higher deduction possible (keep all receipts!)
- Simplified = Simple calculation based on square footage x \$5 (Max of 300 Sq. ft)
 - Used exclusively for business (not a kids playroom or guestroom)
- 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.
▶ 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)	
A Principal business or profession, including product or service (see instructions)		B Enter code from instructions	
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN), (see instr.)	
E Business address (including suite or room no.) ▶ City, town or post office, state, and ZIP code			
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶			
G 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			
H If you started or acquired this business during 2014, check here . . . <input type="checkbox"/>			
I 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			
J If "Yes," did you or will you file required Forms 1099? . . . <input type="checkbox"/> Yes <input type="checkbox"/> No			

Part I Income

1	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"/>	1		
2	Returns and allowances	2		
3	Subtract line 2 from line 1	3		
4	Cost of goods sold (from line 42)	4		
5	Gross profit. Subtract line 4 from line 3	5		
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6		
7	Gross income. Add lines 5 and 6 ▶	7		

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!!