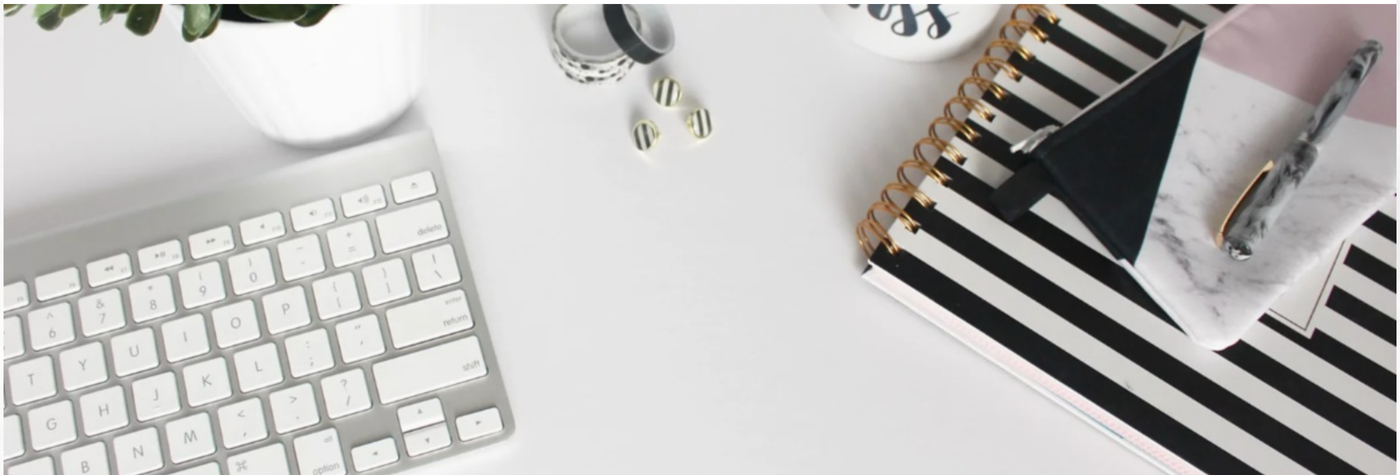
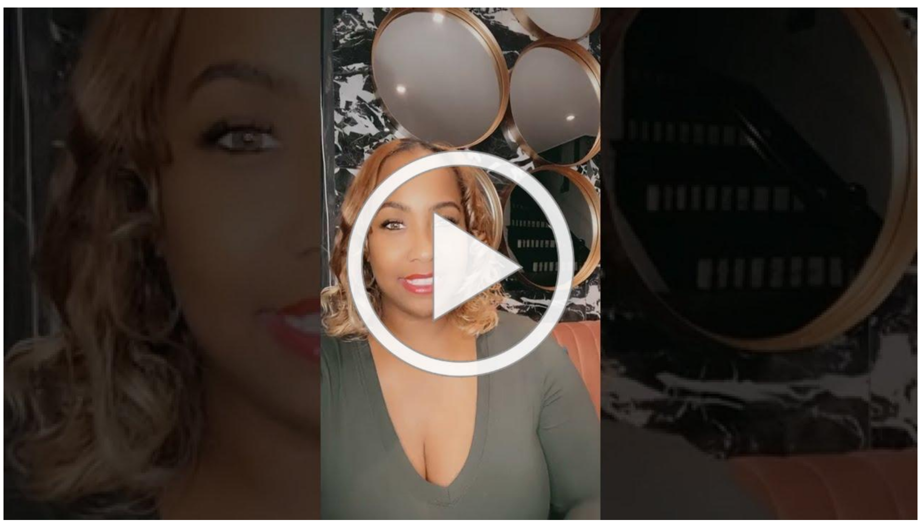
TAX TIP #5

MY SERVICES



SMALL BUSINESS TAX DEDUCTIONS

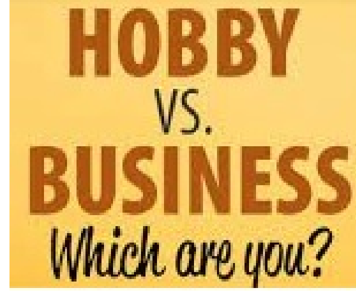


Happy Martin Luther King had a dream, and maybe YOU do too!!

People often focus on seeing us when we are out #LivingTheLiveWeDeserve, however, they don't see the **sweat equity** put into making a business profitable and flourish, so......

CONGRATS TO ALL MY SELF-EMPLOYED, FREELANCING AND INDEPENDENT CONTRACTORS FOR MAKING IT THRU 2021!!

Now, just to be sure, I need you to ask yourself are you operating as a business and NOT as a hobby! How can you tell?



Hobby vs. Business. Before you start taking any deductions, you need to determine if your "side-hustle" is a thriving new business or simply a hobby. If you have a business or when you start your own business, knowing the income tax implications of your decisions can save you money and headaches.

The IRS will view you as acting as a business if you have a reasonable expectation of earning a profit, as losses from a hobby are not tax-deductible. To demonstrate this, (and "CYA" cover your own A$$!) write out a business plan and document your marketing and management efforts. The IRS will presume that your activity is a business **IF** it makes a profit during at least three of the past five tax years.

9 THINGS TO CONSIDER

Here are nine things taxpayers must consider when determining if an activity is a hobby or a business:

- Whether the activity is carried out in a businesslike manner and the taxpayer maintains complete and accurate books and records.
- Whether the time and effort the taxpayer puts into the activity show they intend to make it profitable.
- Whether they depend on income from the activity for their livelihood.
- Whether any losses are due to circumstances beyond the taxpayer's control or are normal for the startup phase of their type of business.
- Whether they change methods of operation to improve profitability.
- Whether the taxpayer and their advisors have the knowledge needed to carry out the activity as a successful business.
- Whether the taxpayer was successful in making a profit in similar activities in the past.
- Whether the activity makes a profit in some years and how much profit it makes.
- Whether the taxpayers can expect to make a future profit from the appreciation of the assets used in the activity.

DID YOU KNOW YOUR BUSINESS STRUCTURE HAS AN AFFECT ON YOUR TAX IMPLICATIONS?

For those of you who incorporated knowing your correct business structure, whether, C or S Corp., LLC, or LLP can affect how much a business and its owners pay in taxes.

For instance, owners of sole proprietorships, partnerships such as limited liability partnerships (LLPs), limited liability companies (LLCs) or S corporations may be able to deduct up to 20% of their business income in calculating their individual tax obligation, under the Tax Cuts and Jobs Act, in a deduction that started in 2018 and will last through 2025 unless it is extended or noted otherwise.

If you are incorporated as a C-Corporation, the business is a tax entity unto itself, it pays its own income tax on any profits it earns. Then, when those profits are distributed to shareholders as dividends, those shareholders pay income tax on it through their individual tax returns. The C-Corporation would file a 1120C and any distributions shareholders receive will be reported on a K1 and that form is filed with your personal taxes.

This double taxation is one of the main tax drawbacks to the corporate business structure. Otherwise, if your business structure is that of sole-proprietorships, partnerships, or S-Corporations, these are all considered pass-through entities; they and their owners are the same tax entity in the eyes of the IRS, so income tax is only levied once. All profits “pass-through” the business to its owners, who pay income tax on that money when they file their personal tax returns.

With that being said Partnerships would file Form 1065 and the partnership will report each partner's share of profit and loss on Schedule K-1, which is then reported on their personal tax return. Similarly, an S-Corporation would file Form 1120-S, and shareholders of S corporations report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates via Schedule K-1.

This allows S-Corporations to avoid double taxation on the corporate income. However, S-Corporations are responsible for tax on certain built-in gains and passive income at the entity level.

These business structures are still responsible for reporting and paying any taxes at the state level. Also, federal and state taxes are separate from any annual filing fees required by the state to keep the corporation in good standing.

Once you’ve determined you are definitely acting as a business AND you know your business structure, I pray you were very good at documenting and keeping track of your income and expenses so that you can accurately report them to the IRS.

Being self-employed, an independent contractor, or incorporating comes freedom, responsibility, and YES!! lots of tax deductions that can add up to substantial tax savings!!

It’s no secret that running a startup isn’t cheap and that costs can add up quickly. Therefore, identifying valuable tax deductions early on can help to make sure that you aren’t leaving money on the table. Luckily, I’ve curated a comprehensive list of startup tax deductions that you should know about *before* tax time.

When you do contract work or have your own small business, be sure you track EVERY business expense. Regardless of which expenses you discover you are able to write off, ALWAYS be diligent to keep accurate records.

This is January, so now is a great time to set up a successful system to save receipts, including e-mail receipts, mileage logs, and other expense records and files or log them so you have easy access to them at tax time. Doing so will not only give you peace of mind when it comes to filing your taxes but also facilitate a system that allows you to track changes from year to year.

I've also created quite a few individual worksheets for various industries (access them at **http://syreeta.biz/worksheets.php**) to assist with capturing your expenses, whether you are a start-up or established business.

For those with start-up costs, these include those incurred or paid while creating an active trade or business — or investigating the creation or acquisition of one.
In general, start-up expenses include all amounts you spend to:

- Investigate the creation or acquisition of a business,
- Create a business, or
- Engage in a for-profit activity in anticipation of that activity becoming an active business.

Under the Internal Revenue Code, taxpayers can elect to deduct up to $5,000 of business start-up and $5,000 of organizational costs in the year the business begins. As you know, $5,000 doesn't get you very far today! And the $5,000 deduction is reduced dollar-for-dollar by the amount by which your total start-up or organizational costs exceed $50,000. Any remaining costs must be amortized over 180 months on a straight-line basis. This recovery period starts with the month the business begins to operate active trade or as a business.

LIST OF SMALL BUSINESS TAX DEDUCTIONS

Advertising & Promotion

Getting your name out there can cost an arm and a leg, but thankfully the money you spend on promotion is deductible. As long as you can prove they're related to your business, you can claim back any money spent on ordinary advertising and marketing purchases. This can include marking costs (ie. Facebook Ads), promotional materials (ie. business cards), and even website collateral (ie. domain names), as well as hiring a freelancer to design a business logo or sending thank you cards to clients.

Auto Expenses

Even if your startup is entirely digital, you've likely logged a few miles in your car traveling to investor meetings or even running items to the post office. All of this business travel is deductible and can be done one of two ways. One option is to track your business mileage and take the mileage deduction at tax time (the IRS sets a standard mileage rate each year). Alternatively, you can write off a percentage of your total vehicle expenses. You can also deduct parking and toll fees. Keep a careful eye on that meter.

Bad Debt

If you've ever lent money to an employee or vendor without receiving it back, you can claim that back as 'bad debt'. You just need to be able to prove that it was business debt, rather than personal debt. The IRS defines bad debt as "a loss from the worthlessness of a debt that was either created or acquired in a trade or business or closely related to your trade or business when it became partly to totally worthless."

The following are examples of business bad debts (if previously included in income):

- Loans to clients, suppliers, distributors, and employees.
- Credit sales to customers.
- Business loan guarantees.

Bank Fees

Whether it's bank fees, credit card fees, or loan fees, any of the extra charges associated with your business bank account and business loans are deductible.

Business Entertainment

Entertaining clients with meals and events? This, too, can be deducted if necessary to your business. Note that most meal costs are only deductible up to 50%. But certain types of meals, such as a meal provided at an office party, are 100% deductible. Be sure to save your receipts and note the business purpose of the meal in order to maximize this deduction.

Cost of Goods Sold (COGS)

Cost of Goods Sold is an expense that you incur as a seller in the process of manufacturing or selling an item. In the case of tech startups, what's being sold is usually virtual. In this case, COGS is directly related to the application or product you're selling, rather than your operational costs. For instance, COGS could include software hosting costs.

Charitable Contributions

Any cash or in-kind donations made to charity are tax-deductible as long as the organization is categorized as a **501(c)(3) non-profit**. In most cases, charities will provide you with a receipt so that you can write off the donation.

Commissions

If you're paying an affiliate or partner to promote your product or service, you can write off these commissions.

Education

Tech startups are known for their love of ongoing learning and training. Luckily, any reference materials (ie. books) or training programs (ie. online courses), are deductible expenses. This is true for both you and your employees, as long as the training is work-related.

Equipment Purchases

Equipment purchases is an obvious deduction that most startup founders know about. However, it is important to note that depending on the cost, the equipment will either be taken as an expense and written off in one tax year, or it will be taken as an asset and depreciated over several years. The depreciation method is used to allocate the cost of an asset over the lifetime of that asset. For instance, if you purchase a $4,000 laptop and plan to use it for four years, the computer would depreciate $1,000 per year. Therefore, you can claim that $1,000 depreciation expense each year on your taxes.

If you're in your first year of running your business, you'll likely purchase a lot of equipment. In this case, it's best to speak to an accountant to know how to properly handle these kinds of startup tax deductions.

Events

Whether you host regular public events or you've simply held a few internal parties, many of the expenses related to those business events can be written off. This includes catering fees, venue rentals, and entertainment costs such as hiring a speaker.

Furniture & Decor

Even if your office is fairly bare-bones, you'll still need a couple of key pieces of furniture for day-to-day operations. Just like equipment, furniture pieces such as chairs, desks, and whiteboards, can be written off as an expense or taken as a depreciating asset.

Gifts

If you sent gifts to your employees, customers, or affiliates, you can deduct up to $25 per recipient per year. This means that if you reward your top salesperson with a $50 gift card, you can deduct $25 of that cost.

Home Office Deductions

If you're an early-stage start-up, you may not have a dedicated office space yet. As a result, you probably spend a lot of time working out of your home. If this is your situation, there are two key deductions you'll want to pay attention to.

If you are primarily working out of your home, you can take advantage of the home office deduction as long as you meet the **criteria** laid out by the IRS. First of all, you must be using a space in your home that is exclusively reserved for business purposes—it can't double as your living room. The home office space must also be used regularly for business purposes and not just an occasional conference call.

If your home office meets the above criteria, you'll need to divide your home office square footage by the full square footage of your home to get the deductible percentage of your home expenses. You can then write off a percentage of your rent or mortgage, your renters' or homeowners' insurance, your utilities, and any repairs to your home office.

Independent/Subcontractors

If you hire a contractor to perform a service such as programming or graphic design, you may be eligible to claim fees of $600 or more.

Do you use independent contractors or freelancers as a part of your labor force? The cost of hiring contracted labor is fully tax-deductible. Note that you must issue form MISC-1099 to any contract worker receiving $600 0r more from you in a given tax year. If the employee is being paid via credit card or PayPal, the payment processor must issue the worker form 1099-K.

Insurance

You've likely invested in some kind of insurance to protect your startup. You can write off the cost if the insurance is for general liability coverage, commercial property insurance, cyber liability insurance, or loss-of-income insurance.

Most businesses will take out some form of insurance. The cost of the business owner's health insurance, business continuation insurance, and the business owner's policy is all 100% deductible. Other types of deductible insurance policies include property insurance, liability coverage, malpractice insurance, workers' compensation costs, auto insurance, business-provided employee life insurance, and business interruption insurance.

Note that with health insurance, a small business may also qualify for up to a 50% tax credit under the qualified small employer health reimbursement arrangement (QSEHRA).

Interest Expenses

If you borrowed money to get your business up and running, you can write off the finance charges and business loan interest. If you have a small-business loan, you'll make interest payments on what you're borrowing from the lender. Those interest payments are usually fully tax-deductible as long as the loan is used to cover business expenses. To claim this deduction, the business owner must be legally liable for the debt, and the business owner and the lender must have a "debtor/creditor" relationship. In other words, the loan must be through a traditional lender, and not a friend or family member.

Internet

If you spend a lot of time working online from home, you can write off a percentage of your home internet bill. This percentage is based on how much internet is used for personal use versus business use.

Inventory

Some inventory-based businesses will manufacture products or purchase them for resale. If this is your business model, you can deduct the cost of your inventory or the cost of the goods you sell. You generally must value inventory at the beginning and end of each tax year to determine your cost of goods sold.

The following are types of expenses that go into figuring the cost of goods sold:

- The cost of products or raw materials, including freight.
- Storage.
- Direct labor costs (including contributions to pensions or annuity plans) for workers who produce the products.
- Factory overhead.

Leasehold Improvements

If you've made improvements to your commercial space, you can write off the costs of those renovations—as long as the improvement is attached to your business property. For instance, if you install a portable bookshelf, that's not a leasehold improvement. However, if you install built-in cabinets, paint the walls, put carpet down, or have the plumbing fixed, all of this is deductible. And just like equipment and furniture, leasehold improvements can be expensed in one tax year or taken as a depreciating asset.

Licenses & Permits

One thing you've likely noticed as an entrepreneur is the number of licenses and permits required to get your business up an running. Whether it's a general business license or a health department permit, keep track of the costs and fees associated with each so that you can deduct them during tax time.

Marchant Processing Fees

Much like bank fees, many of the fees associated with processing credit cards are deductible. This can include fees incurred using services such as PayPal, Stripe, Square, and others.

Meals

While the above deductions are relatively straightforward, meals are where startup tax deductions begin to get a little bit complicated. Since the **Tax Cuts and Jobs Act** (TCJA) was signed into law on December 22nd, 2017, writing off meals has become the subject of much debate. In most cases, it appears that meals consumed with employees, while traveling, during work shifts, or with business clients, are 50% deductible. However, there are some grey areas, which is why it is best to check with an accountant before claiming any meal deductions.

It is also important to note that you can no longer write off the cost of entertaining a client. This means no more meetings at concerts or sports games unless you're willing to take on the cost yourself.

Office Expenses

Beyond furniture and equipment, there are a number of other office expenses you can deduct. For instance, you can deduct any ongoing software subscriptions for things like project management or accounting. You can also deduct basic office supplies such as pens, paper, printer ink, etc.. Paper, boxes, pens, staples… may be small, but they all cost money (which you can deduct from your taxes). Office furniture is also considered a type of office supplies, and can, therefore, be deducted just as you would deduct printer paper or cleaning products.

Payroll Expenses

There are a number of expenses related to running your company payroll that you can write off. Deductions include payroll service fees paid to the provider you use, workers' comp insurance, and local, state, and federal payroll taxes.

Professional Fees Legal and Professional Fees

If you ever need to hire a legal or accounting professional for your business, you can deduct 100% of their fees.

Any legal or professional consultations (ie. with an accountant) for your business are deductible.

Research & Development (R&D)

Innovation isn't cheap, but it's necessary for most startups to develop their product or technology. Fortunately, the **R&D tax credit** allows you to offset some of the costs associated with your R&D process. However, it's not as straightforward as you might think. In some cases, you can treat R&D costs as business expenses and deduct them in one tax year. You can also amortize your R&D costs and deduct the expenses over several years. In order to determine how to best write off your R&D costs, it's best to consult with an accountant.

Rent

Whether you're renting a dedicated office space or your company operates out of a shared co-working space, your rent is deductible.

Rent and Depreciation on Equipment and Machinery

If you lease equipment or machinery for your business you can fully deduct these costs. This can be anything from printers and copiers, to vans and trucks. You can also claim depreciation on equipment and machinery. However, these costs must be deducted over several years. In order to do this, you must claim a Section 179 deduction, which allows business owners to deduct up to $1,020,000 from new or used property in service during the tax year.

If you own your home, you can claim a portion of your house insurance, property taxes, and mortgage interest, although you cannot claim the mortgage payments. If you rent your residence, you can claim a portion of the rent you pay.

If you use a specific room for business purposes, such as a home office, you can take the area of your workspace and divide it by the total area of your house.

For instance, suppose you have a home office that is 10 x 10 feet in a house that's 1,800 square feet. Then, the allowable portion of business-use-of-home expenses would be: 100 divided by 1,800 = 5%. The personal use portion would be = 95%.

Repairs & Maintenance

Just like rent, any ongoing maintenance for your office space (ie. janitorial services) is deductible.

Salaries & Benefits

In general, your employee wages are fully deductible. This includes bonuses and commissions. Employee gifts are 100% deductible up to $25 per year, per employee, according to IRS Publication 463. However, this deduction does not apply to sole proprietors, partners, and LLC members, because these individuals are not considered employees.

You can also deduct certain employee benefit programs, like insurance, education assistance, dependent care assistance, life insurance adoption assistance, or qualified retirement plan accounts. For self-employed individuals, contributions to their own retirement plans are personal deductions claimed on Form 1040. The amounts you are able to claim will likely be in relation to the size of your company and your total earnings.

Software Subscription

If you’ve bought or downloaded software for your business, this can be deducted. These types of expenses can be claimed under “Other Common Business Expenses>Other Miscellaneous Expenses” on your Schedule C tax form

Taxes

As strange as it sounds, the taxes you incur from just running your business are deductible. These taxes might be federal, state, and local income, real estate, or sales taxes. Your employer taxes, such as the employer share of FICA, FUTA, and state unemployment taxes, are also fully deductible.

Telephone & Communications

The cost of a landline telephone or VoIP service for your office is deductible.

Travel

As long as your trip has a business purpose, you can write off most travel expenses. This means you can deduct airfare, ground transportation, and lodging. If you’re frequently on the go, you should definitely look into deducting your travel expenses. For a business expense to qualify as travel, it must be away from the city or area in which you conduct business. You must also be away from your tax home for longer than a full workday. Types of deductible travel expenses include airfare, tolls, taxis, and lodging.

Utilities

Any utility bills for your office are deductible. This includes utilities such as heat, water, garbage, security systems, internet, etc.

While the above list is not completely exhaustive, it should provide you with a much better understanding of the tax deductions that you can take advantage of. Of course, it's important to keep in mind that a deductible expense is only good if you can actually prove that you spent money on what you said you did. In other words, careful record-keeping is paramount when it comes to backing up those claims and keeping the IRS happy.

Here are six key points the IRS would like you to know about self-employment and self-employment taxes:

- Self-employment income can include pay that you receive for part-time work you do out of your home. This could include income you earn in addition to your regular job.
- Self-employed individuals file a Schedule C, Profit or Loss from Business, or Schedule C-EZ, Net Profit from Business, with their Form 1040.
- If you are self-employed, you generally have to pay self-employment tax as well as income tax. Self-employment tax includes Social Security and Medicare taxes. You figure this tax using Schedule SE, Self-Employment Tax.
- If you are self-employed you may have to make estimated tax payments. People typically make estimated tax payments to pay taxes on income that is not subject to withholding. If you do not make estimated tax payments, you may have to pay a penalty when you file your income tax return. The underpayment of estimated tax penalty applies if you do not pay enough taxes during the year.
- When you file your tax return, you can deduct some business expenses for the costs you paid to run your trade or business. You can deduct most business expenses in full, but some costs must be 'capitalized.' This means you can deduct a portion of the expense each year over a period of years.
- You may deduct only the costs that are both ordinary and necessary. An ordinary expense is one that is common and accepted in your industry. A necessary expense is one that is helpful and appropriate for your trade or business.

Still have questions, don't hesitate to call or email me.

In the meantime, have a blessed, productive and prosperous day!

Xo,

Syreeta~

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Me

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