Volunteer Workshop Presenter
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Topics
- Taxpayer Identification Number
- Recordkeeping
- Retaining Tax Records
- Self-employment tax
  - Break -
- Estimated Taxes
- Employee or Independent Contractor
Topics

Taxpayer Identification Number

Social Security Number from Social Security Administration

Format 000-00-0000

Employer Identification Number (EIN) from IRS

Format 00-00000000

Tip
Do not Use your CRS id # when contacting the IRS
To Obtain New EIN

- **IRS.gov**
  - Click *Apply for an Employer ID Number (EIN)*
  - or -
  - Search for *EIN*
  - Receive EIN immediately
  - **Tip**: Print confirmation

- Fax *Form SS-4* 1-215-516-3990
  - Receive within about a week

Topics

Recordkeeping
Why Keep Records?

**Good records are required**
- Prepare tax returns and support items reported on tax returns

**Help business owner**
- Monitor the progress of their business
- Prepare financial statements
- Identify income sources

You May Use Any Bookkeeping System

- Manual Journals and Ledgers
- Computerized Accounting System
- Even the Pile System

You must retain enough legible records to document income & deductions.
Using a Computerized System

You must keep source documents or other proof that you have recorded all income and are entitled to your deductions.

**Warning:** Printouts & lists alone are not sufficient. They prove only how transactions are categorized & the accuracy of the totals.

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Best Practices

- Open a separate account for your business
- Don’t mix personal with business expenses
- ATM withdrawals and checks payable to “cash” are not deductible until the cash is spent
- Keep your piles together
### Cash Disbursements Record

- **Date**
- **Check # (or other reference)**
- **Who you paid**
- **What for**
- **Category of the expense**
- **Amount**

9/10/2020

<table>
<thead>
<tr>
<th>Date</th>
<th>Check # (or other reference)</th>
<th>Who you paid</th>
<th>What for</th>
<th>Category of the expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/10/2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Topics

- Saving Your Tax Records

9/10/2020
How Long Must Tax Return Be Saved?

Save documentation supporting entries on tax returns for **as long as the returns can be audited.**

**At least Dec. 31 of third year** after the filing deadline or filing date, whichever is later.

There are **important exceptions**

Self-Employment Tax
*(Social Security and Medicare)*
### Self-Employment Taxes

Paid on net earnings from self-employment including:
- Net profit shown on Schedule C for sole proprietors
- Partnership income of a partnership or LLC engaged in a trade or business

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### Income Tax & Self-Employment Tax

(Example using 2020 rules)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business net profit (Schedule C, line 31)</td>
<td>$44,200</td>
</tr>
<tr>
<td>Standard deduction (2 x $12,400)</td>
<td>-$24,800</td>
</tr>
<tr>
<td>Exemptions (4 x $0)</td>
<td>$0</td>
</tr>
<tr>
<td>Total deductions</td>
<td>-$24,800</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$19,400</td>
</tr>
<tr>
<td><strong>Income tax</strong></td>
<td><strong>$1,940</strong></td>
</tr>
<tr>
<td><strong>Self-employment tax</strong></td>
<td><strong>$6,586</strong></td>
</tr>
<tr>
<td><strong>Total tax before payments</strong></td>
<td><strong>$8,526</strong></td>
</tr>
</tbody>
</table>
Estimated Tax
(Prepayments for current year)

• General rule
  – Prepay 90% of current year tax in 4 equal payments
    • Withholding (treated as if paid equally throughout the year)
    • Direct payments to IRS (aka quarterly payments)
      – April 15, June 15, September 15, January 15
  • Penalty for underpayment of estimated tax
    – Currently 3% of required payment amount for number of days not paid
  • No penalty if pay 100% of prior year total tax (with limitations)
**Estimated Tax – New Mexico**

**WARNING**
New Mexico also has estimated tax payment requirements similar to the federal rules.

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**Variable Estimated Tax Payments**

**Based on Total Federal Tax Cost (example)**

<table>
<thead>
<tr>
<th>Based on Business Gross Receipts</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total tax <em>(from self-employment tax example)</em></td>
<td>8,526</td>
</tr>
<tr>
<td>Divided by</td>
<td></td>
</tr>
<tr>
<td>Business gross receipts <em>(Schedule C, line 1 or CRS-1s)</em></td>
<td>100,000</td>
</tr>
</tbody>
</table>

**Federal tax cost** 8.5%

**Monthly estimated tax payments**
- Gross receipts reported on NM Form CRS-1 x 8.5%

**“Quarterly” estimated tax payments**
- Gross receipts CRS-1s for months of “quarter”

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Three Ways To Pay

1. **Check**
   Mail with **Form 1040-ES**

2. **Online**
   Go to **IRS.gov**
   • Click **Make A Payment**
     • **IRS Direct Pay or**
     • **Debit or Credit Card**

3. **Electronic Federal Tax Payment System**
   Go to **EFTPS.gov**

Electronic Federal Tax Payment System

Sponsored by the U.S. Department of the Treasury

• **Individual taxes**
• **Business taxes**

Online and by phone

• [www.EFTPS.gov](http://www.EFTPS.gov)
• 800-555-8778
• 800-555-4477
Fundamental Decision

Employee or Independent Contractor?

Determining Worker Status

Employee Types
- Common law employee
  - Is under your direct control
- Statutory employee
  - You have no direct control

Independent Contractor
- Performs services for you,
  - Not under your direct control.
- Generally, people who are in business for themselves are not considered employees
Common Law Rules

Common law rules provide guidelines to determine the relationship between the worker & the business. The three categories are ...

1. Behavioral control
2. Financial control
3. Type of relationship

Behavioral Control Factors

Does the company control or have the right to control what the worker does and how the worker does his or her job?

- Type of instructions given
- Degree of instruction
- Evaluation systems
- Training
**Financial Control Factors**

Are the business aspects of the worker’s job controlled by the payer? (These include things like how worker is paid, whether expenses are reimbursed, who provides tools/supplies, etc.)

- **P** Significant investment
- **P** Unreimbursed expenses
- **P** Opportunity for profit or loss
- **P** Services available to the market
- **P** Main income of worker

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**Type of Relationship**

Will the relationship continue and is the work performed a key aspect of the business?

- Written contracts
- Employee benefits
- Permanency of the relationship
- Services provided as key activity of the business
Where to Find Us

Online
www.irs.gov

Business and Specialty Tax Line
1-800-829-4933

TELE-TAX
1-800-829-4477

TTY/TDD
1-800-829-4059

Albuquerque Office
5338 Montgomery Blvd. NE
NOTE: Appointments are required for individuals needing face-to-face service at the Taxpayer Assistance Center for all matters except for making payments. Make appointments by calling 844-545-5640.

Your Questions?

What more would you like to know?