

Internal Revenue Service

New Business Workshop

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9/10/2020 IRS New Business Workshop 1

1

Topics

- « Taxpayer Identification Number
- « Recordkeeping
- « Retaining Tax Records
- « Self-employment tax
- Break –
- « Estimated Taxes
- « Employee or Independent Contractor

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6

Topics

Taxpayer Identification Number

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7

Taxpayer Identification Number

**Social Security Number
from Social Security
Administration**

Format 000-00-0000

**Employer Identification Number
(EIN) from IRS**

Format 00-0000000

Tip
Do not Use your CRS id # when contacting the IRS

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8

8

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

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9

Topics

« Recordkeeping

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17

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

Pub 583
Page 11

9/10/2020

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20

20

You May Use Any Bookkeeping System

Ø Manual Journals and Ledgers

- or -

Ø Computerized Accounting System

- or -

Ø Even the *Pile System*

You must retain enough legible records to document income & deductions.

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21

21

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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22

22

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

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27

27

Cash Disbursements Record

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

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29

29

Topics

« **Saving Your Tax Records**

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30

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.

ü There are ***important exceptions***

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31

31

« Self-Employment Tax (Social Security and Medicare)

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37

37

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*

Pub 334
Page 8

9/10/2020
IRS New Business Workshop
38

38

Income Tax & Self-Employment Tax

(Example using 2020 rules)

Business net profit (<i>Schedule C, line 31</i>)	\$44,200
Standard deduction (<i>2 x \$12,400</i>)	-24,800
Exemptions (<i>4 x \$0</i>)	0
Total deductions	-24,800
Taxable income	19,400
Income tax	10% x 19,400 1,940
Self-employment tax	15.3% x 44,200 6,586
Total tax before payments	8,526

39

« Estimated Tax
(Prepayments for current year)

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41

Estimated Tax

- **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*)**

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42

Estimated Tax – New Mexico

WARNING

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

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43

***Variable Estimated Tax Payments
Based on Total Federal Tax Cost (example)***

Based on Business Gross Receipts	
Total tax (from self-employment tax example)	8,526
Divided by	
Business gross receipts (Schedule C, line 1 or CRS-1s)	100,000
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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44

Three Ways To Pay

- 1. Check**
Mail with Form 1040-ES
- 2. Online**
Go to [IRS.gov](https://www.irs.gov)
 - Click Make A Payment
 - *IRS Direct Pay or*
 - *Debit or Credit Card*
- 3. Electronic Federal Tax Payment System**
Go to [EFTPS.gov](https://www.irs.gov/eftps)

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47

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](https://www.eftps.gov)
- **800-555-8778**
- **800-555-4477**

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48

Fundamental Decision

**Employee
or
Independent Contractor?**

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116

Determining Worker Status

Employee Types

- Ø Common law employee
 - *Is under your direct control*
- Ø Statutory employee
 - *You have no direct control*

Independent Contractor

- Ø Performs services for you,
 - *Not under your direct control.*
- Ø Generally, people who are *in business for themselves* are not considered employees

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117

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*

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118

118

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?

- P** *Type of instructions given*
- P** *Degree of instruction*
- P** *Evaluation systems*
- P** *Training*

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119

119

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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120

120

Type of Relationship

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

- Ü** *Written contracts*
- Ü** *Employee benefits*
- Ü** *Permanency of the relationship*
- Ü** *Services provided as key activity of the business*

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121

121

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.

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123

123

Your Questions?



**What more
would
you like
to know?**

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127

127