

Internal Revenue Service

New Business Workshop

Volunteer Workshop Presenter

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IRS New Business Workshop

Topics

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

Before You Go

Please submit your evaluation of this workshop:

www.larryhesscpa.com/workshops/evaluation

Topics

Taxpayer Identification Number

Taxpayer Identification Number

**Social Security Number
from Social Security
Administration**

Format *000-00-0000*

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

Format *00-00000000*

To Obtain New EIN

§ *IRS.gov*

- Search for "EIN"
- Receive EIN immediately
- *Tip*: Print onscreen confirmation

§ Fax *Form SS-4* 1-215-516-3990

- Receive by fax within about ??? weeks

Topics

Business Organizations

What Form Must I File?

- **Sole Proprietorship** *Schedules C & SE*
- **Corporation** *Form 1120*
- **S Corporation** *Form 1120S*
- **Partnership** *Form 1065*
- **Limited Liability Company**
 - *It depends*

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Tip: Get advice from a tax professional and an attorney when considering the appropriate type of entity for your business.

Topics

Recordkeeping

Why Keep Records?

Good records are required to ...

- § Prepare tax returns and support items reported on tax returns

Help business owner ...

- § Monitor the progress toward business goals
- § Prepare financial statements
- § Identify productive income sources & unproductive expenditures

Supporting Documents

Examples ...

- Itemized receipts
- Paid bills
- Sales invoices
- Cash register tapes
- Bank account statements
- Deposit slips
- Cancelled checks

Tip: Your filing system for receipts and paid bills should enable you to easily find documents.

Information Needed for Every Payment

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

You May Use Any Bookkeeping System

- ∅ Pile of Receipts (if you must)
- ∅ Handwritten Ledgers
- ∅ Software

Pile System



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Handwritten Ledger

DATE	PAID TO	CK # DE / CC CASH	PAID FOR	TOTAL PAID	MOVE- THING	AUTO- MOBILE	FURNIT- TURE & EQUIPMENT	OFFICE SUPPLIES	SOFTWARE	TELE- PHONE & INTERNET	OTHER CATEGORIES	AMOUNT
2020												
9/1	WELLS FARGO	101	CHECKS	2500				500				
9/1	STATE FARM	CC	BUSINESS INSURANCE	3000							MOVES	3000
9/2	COSTCO	AD	COMPUTER PAPER, PENS, ENVELOPES MEMBERSHIP GAS FOR HOME	1465			10500	750			TOYS PERSONAL	900 1500
9/3	MITRIT	CC	QUICKBOOKS	2000						2000		
9/3	CENTURYLINK	DE	INTERNET MIDEM	1500			1000			500		
9/4	T-MOBILE	CC	CELLPHONE SERVICE SAMSONITE MACHINE	3500			3000			500		
9/5	GOOGLE	DE	GOOGLE AD -	2500	2500							
9/5	US POSTAL SERVICE	CC	STAMPS	1100							POSTAGE	1100
9/8	GOODWILL	DD	DESK + CHAIR	3000								
9/9	FLEA MARKET	CASH	DESK LAMP	2500			2500					
9/8	STAPLES	CC	SURETYER	900			900					
9/8	SPEEDWAY	DL	GAS FOR HOME	350		350						
9/10	AMAZON	CC	MP3 SOFTWARE	2500								
	TOTALS			34000	2500	350	14500	1000	2500	1000		

Business and Spreadsheet Software

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

Caution: Printouts and lists alone are not sufficient. They only prove how transactions are categorized and the accuracy of the totals.

Some Best Practices

- Don't mix personal with business income and expenses
- Open separate bank and credit card accounts for your business
- Always deposit cash received
- Never take cash back from deposits
- ATM withdrawals and checks payable to "cash" are not deductible until the cash is spent

Topics

Record

Saving Your Tax Records

Keeping

How Long To Save Your Tax Records

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

IRS: 3 years after filing deadline or actual filing date, whichever is later.

NM: Dec. 31 of third year

Exceptions

- ü 6-year clock under certain circumstances
- ü Tax returns - forever
- ü Capital assets - almost forever

Capital Assets

- ü A capital asset is an asset with a useful life longer than a year that is not intended for sale in the regular course of the business's operation.
- ü Deduction for the amount paid is determined by rules for depreciation.
- ü Documentation of purchase must be retained until 3 (or 6) years after last year subject to depreciation rules.

Taxes Affecting Businesses

Income Tax

(Everyone knows about this one)



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Taxes Affecting Businesses

Self-Employment Tax

(Social Security and Medicare)



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Self-Employment Taxes

Paid on net earnings from self-employment

- Sole proprietors: Net profit shown on Schedule C
- Partnership income on Schedule K-1 for a partnership and LLC engaged in a trade or business

Calculated on Schedule SE

Important for Self-Employed People

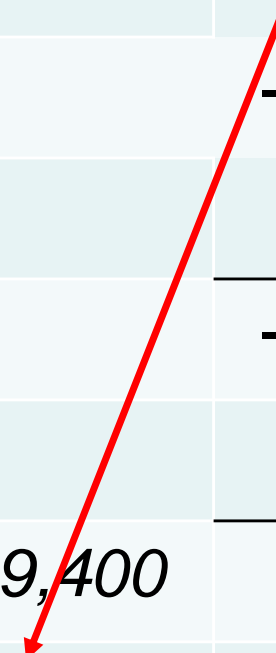
*Important factors to consider to be
prepared to pay tax owed*

- There are no withholdings
- Self-employment tax is considerably more than income tax
- Payments combine both taxes
- Direct payments to the IRS are required

Self-Employment Tax vs. Income Tax

(Example using 2020 rules)

Business net profit		\$44,200
Standard deduction (2 x \$12,400)		-24,800
Exemptions (4 x \$0)		0
Total deductions		-24,800
Taxable income		19,400
Income tax	10.0% x 19,400	1,940
<i>Self-employment tax</i>	15.3% x 44,200	6,586
<i>Combined tax</i>		8,526



Paying Late

On time means by April 15

- Not affected by extension

Consequences

- Penalty $1/2\%$ per month on amount unpaid after April 15 (maximum of 25%)
- May need payment plan
- Very difficult to pay both current year and back taxes at same time

Taxes Affecting Businesses

Estimated Tax

Estimated Tax Is Not A Tax

- ü Prepayments of current year tax
- ü Direct payments to IRS
- ü Combined income and self-employment taxes

Estimated Tax Is Not A Tax

General rule

- ü Prepay 90% of current year tax in 4 equal payments
- ü Withholding treated as if paid equally throughout the year
- ü Payments due

April 15, June 15, September 15, January 15

When Estimated Tax Payments Are Not Required

Individuals

- Expect to owe less than \$1,000 when you file your return. *(Use Form 1040ES)*

Corporations

- Expect to owe less than \$500 when corporate return filed. *(Use Form 1120-W)*

If Estimated Tax Payments Are Not Made

- Penalty for underpayment of estimated tax
 - Currently 3% of required payment amount for number of days not paid (1.7% effective maximum if no ES payments are made)
- No penalty if pay 100% of prior year total tax (with limitations)

Estimated Tax – New Mexico

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

When Income Is Unpredictable
One Way to Determine Approximate Tax
(example)

Based on Business Gross Receipts

Total tax \$8,526
(From self-employment tax example)

Divided by ÷

Business gross receipts 100,000
(From Schedule C, line 1 or CRS-1s)

Federal tax cost related to sales 8.5%

How To Pay

Check

- ü Mail with Form 1040-ES
(1040-V after April 15)

Online

- ü Go to www.IRS.gov
- ü Click "Make A Payment"

Electronic Federal Tax Payment System

- ü Go to *EFTPS.gov*

Fundamental Decision

**Employee
- or -
Independent Contractor**

The Decision

- § Not a voluntary choice
- § Decision must be made using facts and circumstances surrounding the work relationship
- § Temptation to "1099" workers to save costs and simplify administration
- § Going along with a worker's request to avoid withholdings is not appropriate

Cost of Misclassifying Workers

- § Employee withholding taxes
- § Employer payroll taxes
- § Late filing penalty
- § Late payment penalty
- § Failure to deposit penalty
- § Interest

Worker Recourse

Workers who believe they have been misclassified as independent contractors have recourse

§ Report to IRS using Form SS-8, *Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding*

§ File unemployment or workers compensation claim

Cost of Having Employees

Payroll taxes

§ Employer matches withheld Social Security and Medicare taxes

Employee benefits (examples)

Required

- Unemployment compensation
- Workers compensation

Optional

- Health insurance
- Retirement
- Paid vacation

Cost of employer taxes

§ About 11% of wages

Compliance Employees

Form W-2

- ü Furnish to each employee and filed with the Social Security Administration by *January 31* following the end of the calendar year covered.
- ü Keep Form W-2 (copies B & C) in your records for *4 years*.

Compliance

Independent Contractors

Form 1099-NEC

- ü Required if you pay more than \$600 during the year to an independent contractor
 - In the course of your business
 - For services performed
 - By an unincorporated business
- ü Furnish to each person and file with IRS and by January 31 of the following year
- ü *Note:* Independent contractors must pay to NM Gross Receipts Tax

Worker Status Types

Employee

- Is under your direct control

Independent Contractor

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

Making the Decision

There are three general categories of factors to consider:

- ∅ Behavioral *control*
- ∅ Financial *control*
- ∅ Type of relationship

Behavioral Control Factors

Facts that illustrate whether there is a right to direct or control how the worker performs the specific task for which he or she is hired:

- P** Degree of instruction
- P** Training

Behavioral Control Factors

Types of instructions given

- P** When and where to do the work.
- P** What tools or equipment to use.
- P** What workers to hire or to assist with the work.
- P** Where to purchase supplies and services.
- P** What work must be performed by a specified individual.
- P** What order or sequence to follow when performing the work.

Financial Control Factors

- P** Significant investment by worker
- P** Unreimbursed expenses
- P** Services available to the market
- P** Opportunity for profit or loss
- P** Method of payment
- P** Opportunity for profit or loss by worker

Relationship of the Parties

- ü Employee benefits
- ü Intent of the parties/Written contracts
- ü Permanency of the relationship
- ü Discharge/Termination
- ü Regular business activity

20 Factors IRS Considers When Evaluating Worker Status

1. Type of instruction reports
2. Amount of training
3. Degree of business integration
4. Extent of personal services
5. Control of assistants
6. Continuity of relationship
7. Flexibility of schedule
8. Demands for full-time work
9. Need for onsite services
10. Sequence of work
11. Requirements for
12. Method of payment
13. Payment of business or travel expenses
14. Provision of tools and materials
15. Investment in facilities
16. Realization of profit or loss
17. Work for multiple companies
18. Availability of public
19. Control over discharge
20. Right of termination

Download Checklist <http://bit.ly/HessCPA-EE-ICfactors>

Resources

- *www.irs.gov/businesses/small-businesses-self-employed*
- *Publication 583, Starting a Business and Keeping Records*
- *Publication 334, Tax Guide for Small Business (For Individuals Who Use Schedule C)*
- *Publications 15 & 15A (Circular E), Employer's Tax Guide and Supplement*
- *www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee*

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

7200 Jefferson St. NE (*new*)

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?**

Feedback

(Please)

www.larryhesscpa.com/workshops/evaluation

If you are interested in a basic bookkeeping or gross receipts tax workshop take a look here

www.larryhesscpa.com/workshops

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