Internal Revenue Service

New Business Workshop

Volunteer Workshop Presenter
LARRY HESS, CPA
Larry@LarryHesscpa.com
505-450-9264

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

2/9/2021
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*

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

Recordkeeping

New Business Workshop
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

- Date
- Check # or other reference
- Who you paid
- What for
- Category of the expense
- Amount
You May Use
Any Bookkeeping System

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

IRS New Business Workshop
<table>
<thead>
<tr>
<th>DATE</th>
<th>PAID TO</th>
<th>DESCRIPTION</th>
<th>Z#</th>
<th>TOTAL PAID</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/20</td>
<td>WELLS FARGO</td>
<td>CHECKS</td>
<td>10</td>
<td>150</td>
</tr>
<tr>
<td>9/21</td>
<td>STATE FARM</td>
<td>BUSINESS INSURANCE</td>
<td>1</td>
<td>2000</td>
</tr>
<tr>
<td>9/22</td>
<td>COSTCO</td>
<td>UNPAID</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>9/23</td>
<td>HINTED</td>
<td>PAPER, ENVELOPES</td>
<td>1000</td>
<td>2600</td>
</tr>
<tr>
<td>9/24</td>
<td>CENTURYLINK</td>
<td>INTERNET</td>
<td>3</td>
<td>150</td>
</tr>
<tr>
<td>9/25</td>
<td>T-Mobile</td>
<td>CELLPHONE SERVICE</td>
<td>1000</td>
<td>1200</td>
</tr>
<tr>
<td>9/26</td>
<td>GOOGLE</td>
<td>GOOGLE HOME</td>
<td>1000</td>
<td>1200</td>
</tr>
<tr>
<td>9/27</td>
<td>USセルFICENCE</td>
<td>SECURITY</td>
<td>1000</td>
<td>1200</td>
</tr>
<tr>
<td>9/28</td>
<td>GOODWILL</td>
<td>TABLE &amp; CHAIR</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>9/29</td>
<td>FISH MARKET</td>
<td>DECK LAMP</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>9/30</td>
<td>STAPLES</td>
<td>SUPPLIES</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>10/1</td>
<td>SPEEDWAY</td>
<td>GAS FOR HOME</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>10/2</td>
<td>INTERNET</td>
<td>INTERNET SERVICE</td>
<td>300</td>
<td>300</td>
</tr>
</tbody>
</table>

TOTALS: 30000
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
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**
- 6-year clock under certain circumstances
- Tax returns - forever
- Capital assets - almost forever

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Capital Assets

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.

Deduction for the amount paid is determined by rules for depreciation.

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)
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)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business net profit</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>Income tax</td>
<td>10.0% x 19,400</td>
</tr>
<tr>
<td><strong>Self-employment tax</strong></td>
<td>15.3% x 44,200</td>
</tr>
<tr>
<td><strong>Combined tax</strong></td>
<td>8,526</td>
</tr>
</tbody>
</table>

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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

2/9/2021

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Estimated Tax
Is Not A Tax

- Prepayments of current year tax
- Direct payments to IRS
- Combined income and self-employment taxes
Estimated Tax
Is Not A Tax

General rule

- Prepay 90% of current year tax in 4 equal payments
- Withholding treated as if paid equally throughout the year
- 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)
New Mexico also has estimated tax payment requirements similar to the federal rules.
When Income Is Unpredictable
One Way to Determine Approximate Tax
(example)

<table>
<thead>
<tr>
<th>Based on Business Gross Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total tax</td>
</tr>
<tr>
<td>(From self-employment tax example)</td>
</tr>
<tr>
<td>Divided by</td>
</tr>
<tr>
<td>Business gross receipts</td>
</tr>
<tr>
<td>(From Schedule C, line 1 or CRS-1s)</td>
</tr>
<tr>
<td>Federal tax cost related to sales</td>
</tr>
</tbody>
</table>

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How To Pay

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

Online
- Go to www.IRS.gov
- Click “Make A Payment”

Electronic Federal Tax Payment System
- 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

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

Form 1099-NEC

- 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
- Furnish to each person and file with IRS and by January 31 of the following year

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:

- Degree of instruction
- Training
**Behavioral Control Factors**

*Types of instructions given*

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

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

- Employee benefits
- Intent of the parties/Written contracts
- Permanency of the relationship
- Discharge/Termination
- Regular business activity
20 Factors IRS Considers When Evaluating Worker Status

1. Type of instruction
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 reports
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


IRS New Business Workshop
Resources

- **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*

IRS New Business Workshop
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.

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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

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Presented by

LARRY HESS CPA
Larry@LarryHesscpa.com
LarryHesscpa.com
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