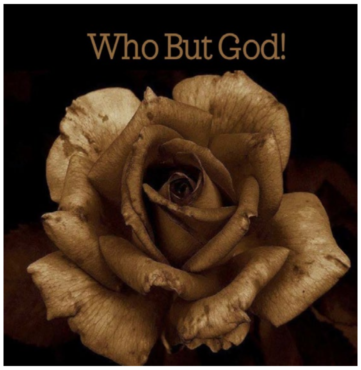

Tasha's Spiritual, Mental, Emotional & Financial Services

Why am I being issued this packet? You are being issued this packet if you have reported or submitted income that was reported on an 1099MISC, 1099NET, SCH K-1, to include any additional income that was issued as other or additional.

Client Name: ______________________________

Date Issued: ________________________

Tax Deductions for the Self Employed

The following information is for those individuals that are self-employed and do not have a W2 income. If you have another W2 income, then with the new Tax Cuts and Jobs Act tax laws, thefollowing information will not be able to apply unless you have an entity (LLC, S-Corp, or C-Corp)of some sort.

When deducting expenses on your tax return, look at all expenses considered necessary and ordinary costs for running your business. The standard deductible expenses cover a wide rangeof business costs from utilities used for doing business to advertising costs. Add to the standard costs, those relevant to your profession. The common profession-based deductions include:

- Janitorial: Vacuums, mops and buckets, towels, and cleaning products.
- Photography: Camera, lenses, tripods, studio supplies, and photo editing software.
- Transportation: Mileage and auto maintenance and upkeep.
- Construction: Power tools, equipment, vehicles, and trailers.
- Freelance Writers: Home office equipment including computer, printers, and fax machine. Standard office supplies directly relating to your work like paper, pens, pencils, and printer cartridges. Office supplies also include the maintenance and repair needed for necessary business equipment like computers and printers.

Not all deductions pertain to your business, but it's surprising how many do. When it's time to file, you list all deductions on the appropriate tax return for your business structure.

Common Self-Employed Expenses & Deductions

Expense	Deductible	Non-Deductible
Home Office	Home office expenses essential for runninga business including mortgage interest, rent, insurance, repairs, utilities.	No home office expenseswhen using simplified reporting method.
Office Space	Office space expenses without separate categories including general maintenanceand cleaning services.	No home office costs.
Depreciation	Business assets depreciate including office equipment, computers, furniture, tools, andvehicles.	No car depreciation whenusing standard mileage rates.
Advertising	All business marketing materials includingsignage, flyers, promotional items, advertisements, and trade or event shows. Deductions include costs for developing marketing through agenciesand designers.	Office gifts or holiday partiesand non-branded items (usethe Other Expenses category).
Business Insurance	Business insurance covering propertyfor theft, fire, and flood, general liability, workers' compensation, omissions and errors, and malpracticeinsurance.	Auto insurance.
Health Insurance	If paid for by the business and structured correctly Health Insurancecan be deducted.	
Busines s Supplie s	Supplies to run the business, like cleaningsupplies for janitorial, office supplies for writers and other administrative workers,and hot and cold beverage and food bagsfor food delivery services.	Office decoratingcosts (use Office Expenses).
Auto Expenses	The business only portion of car expenses, including, registration, insurance, maintenance and repairs, gas, or public transportation if usinglocal transport.	All expenses when using standard mileage rates, exceptparking fees and tolls.
Meals and Entertainment	Business client meals and entertainment for business discussions locally or while traveling out-of-town on business trips.	Your meals and athleticclub dues.

Travel	Account for all costs occurring from trips made for business. Travel deductions are overnight stays and mainly business. Costs include airfare, lodging, local transportation, and rentalcars.	No personal costs fortraveling. For meals expenses when traveling, use the Meals and Entertainment Expense category.
Other Expenses	Includes any necessary business expenses, like educational classes forimproving job skills, association dues,banking fees, industry magazines, and business gifts.	Any expenses found inseparate categories orones not considered ordinary or necessary.

While you find the above expenses in most businesses, you might find a few not so commonexpenses. These lesser-known expenses include:

- Business taxes and licenses required by the business type including specializedlicenses for food industry and FICA taxes.
- Fees or commissions paid for revenue generation by nonemployees. Costsinclude like agent fees, and designer fees.
- Contractual labor for independent contractors like web developers, marketingfees, or copywriters.
- Business related legal and professional services like tax preparation,accountants, attorneys, and other professional services.
- Employee wages including salaries, commissions, and bonuses.
- Employee benefit program costs including health insurance, life insurance,accident insurance, and educational programs.
- Pension and retirement plan contributions like 401 (k), profit sharing, and Keoghplans.
- Natural resources and mining depletion like natural gas, oil wells, and logging.
- Mortgage interest you paid on business property (not a home mortgage).
- Utility costs for business office including electric, water, gas, and trash service.
- Other interest types like a business portion of credit cards, credit lines, andbusiness vehicle interest.
- Rental and lease payments for equipment, machines, and vehicles not owned by you.
- Rental and lease payments for other items not owned by you including an officebuilding, land rent, and the government taxes associated with those items.
- Maintenance and repairs on business offices, equipment, and machines,including computer or laptops and office equipment.

The Most Overlooked and Least Used of theCommon Expense Deductions

While the above table lists the most common self-employed business expenses, there are a few missed or least used expenses. Since the majority of self-employed businesses start in thehome, many of these standard deductions get overlooked.

The Home Office

Portions of the home used for conducting business are a deductible expense. However, these expenses can only be used if there is an income for the business. If you first year in business you do not produce an income, then you will not be able to take the Home Office deduction that year. If can carry over to the following year though. Keep records of every house related expense throughout the year, including mortgage interest, insurance, and utilities.

The biggest problem with taking these deductions is the part of your home used must be for regular and exclusive business use. Normally, this means a room, or several rooms separate from the family area. You can use a section of a room, if there is a clear division,like a partition.
Exclusivity means you only use the room or area for business and not homework or social time.

If your setup violates exclusive-use, you give up your home-office tax deductions. At the end of the year, if the gross income exceeds the total expenses, all the home expenses resulting from the business are deductible.

When the total income is less than the expenses, you get a limited deduction. The deduction is to the gross income and total business expense differences paid if it wasn't abusiness in the home. These expense differences may include the internet, telephone, and other business costs.

The IRS also requires documentation that the home office gets used for business work only. The home office can't have other personal uses including storage of personal items. Besides exclusive use, the IRS considers the home office the principle place of business orlocation you do business with clients and customers.

If your home office meets the requirements for the home office deductions, theeffort for compliance make the tax savings worth it.

Equipment and Property Depreciation

When purchasing equipment or property for the business, include the depreciation on the yearly tax return. The IRS sets the following property guidelines for claiming depreciation:

- The taxpayer must own property, and use the property for generatingincome, like woodworking or metal smith machinery.
- The taxpayer must show an estimated lifespan for the property generating income.
- The equipment must have an estimated lifespan of over one year.
- The owner cannot dispose of the equipment or property the same year they buy it.

Aside from the depreciation costs of the equipment and property, you can claim deductions for the repairs.

Education

Education is one of the most looked over deductions. Any expense for education is deductible. If you buy research material or continuing education classes for improving your work or business, it’s a deductible expense. Expenses include:

- College Courses
- Adult Education or Continuing Education Courses
- Vocational Certification Courses
- Online Web Courses
- Webinars and Seminars
- Course Books and Other Learning Materials
- Industry Specific Books
- Professional or Trade Publications
- Business Organizations Donations

Any educational material directly related to your business continuation, and the growth is a potential tax deduction. Remember to keep all receipts for hard copy and digital products and classes.

Automobile Costs and Travel Expenses

Another overlooked tax deduction is travel expenses. Whether you travel long distances or stay close to your home city, the miles you travel doing business are deductible when filing your taxes. The self-employed has two choices for filing business travel expenses: the actual expenses incurred or using the IRS standard mileage rate, at 54.5 per mile for 2018.

Mileage rates change each year, so check with the IRS for the most current standard mileage rate allowed. When using the standard mileage rate, keep a detailed log, distinguishing between business and personal use.

When using a car, expenses include: registration, insurance, depreciation, payments, licenses, garage rental fees, tolls, parking fees, and maintenance and repairs. Keep detailed records and receipts for each expense related to the business use of your automobile. The yearly log must include the beginning and end mileage for each year.

Vehicles over 6,000 pounds, do not fall under luxury rules and have higher depreciation deductions on lease payments. But, to deduct these expenses, they must fall under theordinary and necessary category.

Mileage for Consultants

For those in the consulting business, commuting is a large part of your business and can eat huge chunks of time. Keeping good mileage and expense records is necessary to take advantage of all the deductions available.

Consultants can track many travel expenses, including the driving expenses between meetings and other daily trips related to consulting. It's important to remember that only business miles are deductible. Commuting to and from your home is not a qualified deduction.

When choosing between using a company car or your personal car, you have two deductionmethods: standard mileage deduction and actual transportation expense deduction.

Standard Mileage Deduction: Efficiency is key to a successful business operation. For this reason, the IRS offers the standard mileage rate combining all deductible automobile expenses in a single per-mile rate. It's simple and quick to track and multiply yearly mileage by the standard rate. The standard rate per mile includes:

- 54.5 cents for every mile of business travel driven
- 18 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

Using standard mileage means you can use any deductions for the individual expenses. There are a few instances where you cannot use the standard mileage rate. One being that you used the actual cost rate for the same car during the previous year. Another restriction for using the standard mileage is if you are not the lessee or owner or if you use more thanfive cars during the period.

Actual Cost Deduction: This method involves manually tracking each cost related to the caryou drive for business. Actual costs' tracking includes:

- Registration
- Gasoline
- Lease Payments
- Insurance
- Depreciation
- Maintenance and Repairs
- Other Associated Costs

Using actual costs deductions means you need meticulous records of all associated expenses, with receipts for each expense. Self-employed software help you keep trackand organize all vehicle expenses.

All tracking involved with the actual cost method is difficult to maintain. But of all expense categories, depreciation gives taxpayers the biggest headache. Depreciation expenses get calculated across a span of seven tax filing years. For the first year, a car used for only business takes the car value divided by seven years. If the vehicle value is $30,000, the first-year deduction is $10,000, second year is $16,000, third year is $9,600 and succeeding years are $5,760.

While this seems like an easy and attractive method, weigh your options carefully. Once you use the actual cost deduction method, you cannot use the standard mileage rate next year. The method used plus other restrictions, like vehicle type and weight might not make it the right method for you. If you drive a lot of miles, take the time to figure the estimated driven miles times the standard mileage and compare to your total cost deduction. Under most circumstances, the standard mileage deduction is easier and a better money saving option.

Cell phone Deductions

Those self-employed using their cell phones for business can deduct the business use portion of the phone on their taxes. Expense deductions are based on percentages. If 40 percent of the time spent on your phone is for doing business, you can take a 40 percent tax deduction on your cellular bill. Keep your itemized cellular bills to differentiate between personal and business use for proof of deductions to the IRS. The best recommendation for cell phones is using a second cell number exclusive to doing business.

Deductions for cell phone depreciation follow the Small Business Jobs Act regulations. The IRS allows deductions for phone depreciation, the wear and tear value loss over a 7-year schedule.

Personal Taxes and Deductions

Health Insurance

Self-employed can deduct premiums for personal health insurance costs when meeting specific criteria:

- The business shows a profit for the year. If you show a loss, you can’t take the deduction for health insurance.
- You aren’t eligible for enrollment in an employer health insurance plan, including a plan under your spouse. Those eligible in one of these plans cannot claim the insurance deduction.
- The deduction is only for premiums paid during ineligible months under an employer health plan.

SECA or Self-Employed Contributions Act Deduction

The Federal Insurance Contributions Act or FICA is a tax burden split between the traditional employee and their employer. When self-employed, the burden of paying the Social Security and Medicare contributions falls on you.

A self-employed person is taxed like their traditional employee counterparts by claiming the

SECA deduction. The tax gets computed on Schedule SE of form 1040. It's an involved process, but tracking and claiming these expenses as deductions saves money when filing taxes. Investing in a financial software for self-employed, like QuickBooks, helps you track your expenses during the year. It makes keeping informed of expenses through automatic classification as deductions an easy and smart bookkeeping practice.

Tax Strategies for Long-Term Savings

When thinking about your tax credits and deductions for self-employment, don't depend on write-offs right before you file your taxes. You want a strategic plan for long-term money saving goals spanning over each year. Strategic planning is necessary for those in the higher earnings tax bracket. While accountants tell their customers that paying taxes is necessary, they don't always help them with strategies for reducing those payments.

IRAs or Individual Retirement Plans

A retirement plan is a good tax write-off strategy for self-employed business owners. If you only have yourself and no other employees, an individual 401 (k) is a solid tax plan. Self-employed individuals can make contributions of $18,500 as a 401 (k) deferral.

For those with employees, a SIMPLE or Saving Incentive Match Plan for Employees IRA lets small employers make simple employee retirement contributions. Deferrals for employees are $12,500 and $3,000 in added deferral for older employees over the age of 50.

The Simplified Employee Pension IRA or SEP IRA allows an employer to contribute $55,000 or 25 percent of income, whichever is less. An equal income percentage contribution is required if an employer has eligible employees.

Regardless of which plan your company uses, all retirement plans, IRAs or 401 (k)s arethe top tax deduction strategy.

Pension and Profit-Sharing Plans

One of the quickest and surest ways for reducing total taxable income is through a pensionplan. A defined-benefit plan bases contributions on income and age. Older contributors with higher earnings have a higher contribution allowance. The alternative plan to income and age is the age- weighted plan. This profit-sharing plan is like the income to age plan and is beneficial to business owners with several employees.

Paying Rent

Those high-earning companies that own their office space under a business structure likelimited liability, or LLC, should pay rent to themselves. Rent not only reduces the business mortgage, but you can use it as an expense when filing your business taxes.

Owning the Insurance Company

If you're a self-employed professional and you must carry liability insurance, set up an insurance company. The specialized insurance company, known as a captive, covers the standard risks from doing business. It can also ensure the risks of several businesses, also known as a cooperative. The premiums for these insurance policies are tax-deductible.

There are risks to this insurance setup. When the company accumulates money with fewclaims, any money removed get taxed under the capital gains code. Those businesses using this strategy must realize, it's not a plan for retirement. It can, however, save money by making the payments to your business instead of an outside insurance company, and the premiums are deductible.

This insurance company strategy like any of the other long-term, complicated strategies, needs a consultation with a professional. Talk with a financial planner or attorney to coverall the planning details.

Other Tax Strategy Areas

Other overlooked tax deduction areas are expenses for promotion and advertising, transportation fares like a train, bus, or air, and bank fees. If your entertainment and meal costs are necessary expenses for business, you can write those off too.

Premiums for health insurance usually get counted as a tax credit instead of a deduction.The credit applies to your taxes instead of reducing your income.

It doesn't matter what expenses you write off; the importance lies with the accurate records you keep during the year. Develop a logging and filing system for all your receipts, both standard and email, mileage logs, and other records. Keep your filing system organized for easy access during tax season. With an organized and accurate system, you can track year- to-year changes for adjusting or changing accounting processes along the way.