

Business Advisor Role in Client Taxation

- As Business Advisors, we have the responsibility to educate our clients on small business tax matters. How?
 - One-on-one counseling sessions to educate and advise
 - Trainings/Workshops, ex:
 - Small Business Taxes
 - Federal and State Taxes
 - Basic Withholding Tax
- Recommend clients to consult an accountant when appropriate, and for any tax preparation.
- Stay within the SBDC scope of work!

Filing and Paying Business Taxes

- **Do I have to file an income tax return?**
 - You must if your net earnings from self-employment were \$400 or more.
- **Do I need an Employer Identification Number (EIN)?**
 - Yes – if you pay wages, have a self-employed retirement plan, or operate as a partnership or corporation.
 - Recommended – to open a business bank account, and for certain transactions with other businesses.
 - Very simple to apply online.
- **What business tax return do I file?**
 - Sole proprietor – Sch C
 - Partnership – 1065
 - S Corporation – 1120S
 - C Corporation – 1120
 - LLC – Depends on number of members and how the entity has elected to be taxed
- **When is my return due?**
 - Partnership (1065) and S Corporation (1120S) – March 15
 - C Corporations (1120) and Sole Proprietors (1040 Schedule C) – April 15
- **What if I won't be able to file on time?**
 - File Form 4868, the Application for Automatic Extension (until Oct 15)
 - Does not extend the time to actually PAY taxes, only to file return
- **How do I pay income tax?**
 - Pay as you receive income (example: the way an employee has withholding from paycheck)
 - "Pay As You Go, So You Won't Owe"
 - Must make estimated tax payments if you will owe taxes of \$1,000 or more when you file your return; otherwise, you may pay tax due when you file your return.
 - There could be a penalty if you did not pay enough tax by withholding or by making estimated tax payments.

- **How long do I need to keep my prior years' tax returns and records?**
 - Statute of limitations to audit a tax return – 3 years after the return is due or filed OR 2 years from the date the tax is paid.
 - Keep employment tax records for at least 4 years.

Self-Employment Tax

- **What is Self-Employment tax?**
 - Self-Employment tax consists of Social Security and Medicare tax.
 - Similar to the FICA deductions from employee's paycheck.
 - When you are an employee, your employer pays half and you pay half. When you're self-employed, you pay all of it.
- **Am I required to pay self-employment tax?**
 - You must pay SE tax if your net earnings from self-employment were \$400 or more.
- SE tax rate – 15.3%
 - 12.4% Social Security
 - 2.9% Medicare Tax

Estimated Tax

- **What is estimated tax?**
 - A method of paying tax on income that is not subject to withholding tax (ex: self-employment income, business earnings, interest, rent, dividends).
 - Includes self-employment tax and federal income tax.
 - The IRS requires estimated tax to be paid quarterly.
 - If you underpay your estimated tax, you will owe more to the IRS when you file your return. If you overpay your estimated tax, you will receive a refund. (Similar to how withholding tax works.)
- **How do I know if I have to pay estimated tax?**
 - Use Form 1040 ES, Estimated Tax For Individuals, to estimate your taxable income for the year.
 - You generally have to make estimated tax payments if you expect to owe taxes (including self-employment tax) of \$1000 or more.

Employment Taxes

- Most employers must withhold, deposit, and pay:
 - Income tax
 - Social security tax
 - Medicare tax
 - Unemployment tax (not withheld)
- Employers must match and pay the amount of employee FICA!! (SS & Medicare)
- Because of the complexity of payroll and especially payroll tax returns, it's a good idea to have an accountant handle the business's payroll and payroll tax returns and deposits.

- Each quarter, the employer must file Form 941- Employer's Quarterly Federal Tax Return
 - Report income taxes, Social Security tax, and Medicare tax withheld from employee's paychecks.
 - Pay the employer's portion of Social Security and Medicare tax.
- Federal Unemployment Tax Act (FUTA) provides for payments of unemployment compensation to workers who have lost their jobs.
 - Annually, employers must file Form 940 - Employer's Annual Federal Unemployment (FUTA) Tax Return
- Employees vs. Contractors
 - The IRS uses three categories to help distinguish employees from contractors:
 - Behavioral Control – who controls what work is accomplished and how the work is done
 - Financial Control – how the business pays the worker
 - Relationship – permanency of the relationship

State & Local Taxes

- In addition to all the aforementioned federal taxes, it is important for the client to know state specific taxes:
 - Sales & use tax
 - Property tax
 - Business privilege tax
 - Personal property tax (machinery, equipment, furniture, etc.)
- In addition, many states require income tax withholding, as well as State Unemployment Tax (SUTA)
- Your state and county governments, as well as local municipalities, can provide information about the specific taxes that apply in your area.

Deductible Business Expenses

- Expenses must be considered **ordinary** and **necessary** to be deductible.
 - Ordinary: things that are commonly used, and accepted by general industry standards.
 - Necessary: costs for things helpful and appropriate in running your trade or business.
- Expense amounts must also be reasonable.
- Keep all receipts for items you plan to deduct! The burden of proof falls on the taxpayer.

- Automobile expenses	- Advertising
- Depreciation	- Bank fees
- Employees' pay	- Education expenses
- Insurance	- Licenses and regulatory fees
- Interest	- Moving machinery
- Legal and professional fees	- Repairs and maintenance
- Pension plans	- Subscriptions
- Rent expense	- Supplies and materials
- Taxes	- Utilities
- Travel	- Business use of your home
- Meals (50%)	
- Mileage
 - 54.5 cents per mile for business miles driven (up from 53.5 cents in 2017)

- Meals
 - 50% deductible
 - Must be business related, or necessary due to travel
- Travel
 - Trip primarily for business – deduct all travel expenses
 - Transportation, business use of automobile, meals, lodging
 - If personal vacation activities are incorporated, only the business portion of the travel can be deducted

Tax Cuts & Jobs Act of 2017

- Notable changes for businesses
 - **Special rules for pass-through entities (Section 199A – 20% deduction)**
 - New income tax withholding tables
 - Corporate rate reduced to a flat 21%
 - Corporate Alternative Minimum Tax (AMT) repealed
 - Depreciation changes – additional bonus depreciation & increases to Sec. 179
 - Expanded use of cash basis
 - No deduction for entertainment expenses
 - Changes to treatment of employee transportation fringe benefits
 - No Net Operating Loss (NOL) carryback

New! Deduction for Qualified Business Income of Pass-Through Entities

- Section 199A Deduction:
 - In simplified terms, the basic deduction is 20% of net qualified business income.
 - Deduction taken on the individual's tax return
 - Subject to multiple limitations, based on:
 - Trade or service, taxpayer's taxable income, W-2 wages paid
- Pass-Through Entity
 - Sole proprietorships, partnerships, LLCs, and S Corporations
 - Entities themselves are not subject to income tax
- Qualified Businesses
 - Any trade or business other than specified service trade or business
- Excluded "specified service" businesses:
 - Health, law, accounting, actuarial sciences, brokerage services, investment management trading, dealing in securities

IRS Resources to Assist Clients

- Small Business and Self-Employed Tax Center
- Small Business Taxes: The Virtual Workshop
- IRS YouTube Channel – Small Business playlist
- IRS Tax Calendar for Businesses and Self-Employed

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