

TAXES

FOR

SMALL BUSINESS

Advanced and Effective Methods of Tax
Process for Small Businesses



ABRAHAM DOUGLAS

TAXES

FOR

SMALL BUSINESS

Advanced and Effective Methods of Tax
Process for Small Businesses



ABRAHAM DOUGLAS

TAXES FOR SMALL BUSINESS

**ADVANCED AND
EFFECTIVE**

**METHODS OF TAX
PROCESS FOR
SMALL BUSINESSES**

© Copyright 2020 by Abraham Douglas - All rights reserved.

The contents of this book may not be reproduced, duplicated, or transmitted without direct written permission from the author.

Under no circumstances will any legal responsibility or blame be held against the publisher for any reparation, damages, or monetary loss due to the information herein, either directly or indirectly.

Legal Notice:

You cannot amend, distribute, sell, use, quote, or paraphrase any part of the content within this book without the

consent of the author.

Disclaimer Notice:

Please note the information contained within this document is for educational and entertainment purposes only. No warranties of any kind are expressed or implied. Readers acknowledge that the author is not engaging in the rendering of legal, financial, medical, or professional advice. Please consult a licensed professional before attempting any techniques outlined in this book.

By reading this document, the reader agrees that under no circumstances are the author responsible for any losses, direct or indirect, which are incurred as a result of the use of the information

contained within this document, including, but not limited to, —errors, omissions, or inaccuracies.

Table of Contents

Introduction

Chapter One: The Basics of Tax

Overview of Taxes

Tax Terms

What You Can Do About Your Taxes

Chapter Two: Understanding Your Business Structure

Sole Proprietorship

Other Drawbacks Include

Partnerships

Corporation

Limited Liability Company (LLC)

Switching Business Structures

*Choosing the Best Business Structure
for Your Business*

Chapter Three: Business Tax

What is a Business Tax?

Income Taxes

Estimated Taxes

Self-Employment Taxes

Corporation Tax

Value Added Tax

C Corporations

Pass-Through Businesses

Chapter Four: What is the Tax Rate for Small Businesses?

Income Tax

Sales Tax

Value Added Tax

Self-Employment Tax

Social Security Tax

Medicare Tax

Federal Unemployment Tax

State Unemployment Tax

Excise Tax

Import Duties

Property Tax

Chapter Five: Things to Note when Starting your Business

Manage Your Cash

Budget Appropriately

Manage Your Debtors

Maintain a Cash Flow

Maintain a Data-Based Culture

Understand Margins

Recruit and Retain Good Talent

Engage in Marketing

Know Your Market

Understand Your Taxes

Manage Your Finances

Chapter Six: Taxation for Small Businesses Today

*How to Reduce Your Small Business
Tax Bill*

How Many Types Of Business Taxes Are There?

Be Vigilant About Adjusted Gross Income

Extract Income from the Business Using Tax-Free Methods

Talk to Your Accounting Department About the Following

Chapter Seven: Tax Accounting

What Is Tax Accounting?

The Tax Principles vs. GAAP

Tax Accounting and How It Works for an Individual

Tax Accounting for a Business

*How Tax Accounting Works for
Organizations Exempt from Taxes*

**Chapter Eight: Owning Your Own
Home-Based Business**

Deductions

**Chapter Nine: Filing Tax and The
Essentials of the 1040 Form**

Exploring the Essentials

*Understanding the Lines Involved
During Form 1040 Procedure*

**Chapter Ten: Revenue and
Deductions**

*Determining Business Income and
Deductions*

Rental Expenses on Business Property

Depreciation

Cost of Insurance

Commissions

Interest on Loans And Other Borrowed Money

Chapter Eleven: Record Keeping and Good Standing

Documents to Keep

Good Standing

How to Maintain Good Standing

Chapter Twelve: Difference between Tax Credit and Tax Deduction

Tax Credits

Popular Tax Credits

Tax Deductions

Chapter Thirteen: How to Legally Reduce Your Taxes

Other Simple Ways to Reduce your Taxes

Chapter Fourteen: Costly Tax-Related Mistakes

Chapter Fifteen: Using QuickBooks For Accounting and Bookkeeping

What is QuickBooks?

Difference between Bookkeeping and Accounting

The Benefits of Accounting Software

Excel Spreadsheet vs. Accounting Software

Why Do Businesses Use QuickBooks?

Seven Tax Tips for Small Business Owners

Chapter Sixteen: Common Business Mistakes and FAQs

Most Common Business Tax Return Errors

Frequently Asked Questions

Conclusion

Introduction

It has been said in life; two things are definite — death and taxes. In business, there is the only one that is definite, and that's taxes. Tax requirements go hand-in-hand with managing a business. From the Federal level down to City Hall, you will need to be responsible for knowing what taxes to pay for your business, when you need to file them, and to make sure you file on time. Make a mistake or miss a deadline, and your business will suffer consequences known as penalties.

Taxes are one of the least favorite subjects for small business owners. However, it's one of the most vital topics for your business. The steps you

take before the end of the tax year will facilitate your business's ability to save money on the amount of taxes you owe. The start of the next tax year is the best time to evaluate whether or not you're capitalizing on your deductions and perhaps even getting a second look at extra deductions that will allow you to save money for your business. Recognizing a method to curtail how much you pay in taxes means that you will be able to retain more of the money you make. Fall short of accurately controlling your taxes, and your business may finish up having hassles.

As you become a small business owner, you gain a liability to create tax payments that you simply did not have as

an employee. As an employee, your boss withheld part of your taxes from your paycheck to send to the government. The corporation was additionally matching your Social Security and Medicare taxes, cutting the cost for you in half. It was at the same time filing info returns to the Internal Revenue Service.

Taxes are compulsory expenses for any company, and there are no two ways about it. Whether you like it or not, you have to pay taxes to avoid running into problems with the IRS.

However, when it comes to paying taxes, many companies remain unaware of what really needs to be done. Despite having filed taxes through several years,

businesses don't put in the effort to understand why they are paying these taxes and forgo other general information on the topic.

Knowing what is being done and why will give you an advantage, provided you go through everything in detail. In fact, small business owners can reduce the amount of tax that they need to pay by capitalizing on some of the tax-saving schemes available.

The US tax system can be a little tricky since there are many forms and schedules to be aware of. And it might seem a little harrowing for a new business owner to pay the tax for the first year of running the company.

This book will act as your true taxation guide and usher you in the right direction. The main purpose will be to demonstrate what tax provisions you will be held liable for as a small business owner.

Thank you for choosing this book and hope that it helps your small business to thrive.

Chapter One: The Basics of Tax

Overview of Taxes

Simply put, taxes are the compulsory contributions that you must make to your local state and the Federal government. These are levied by the government and used for paying for everything society requires. This includes everything from providing law enforcement, the salaries of the armed forces, the roads that you drive on to the salary of the President as well. Payment of taxes is not optional, and there really is no way that you can outrun paying your dues. In a survey, it was found out that about 96% of

Americans considered it to be their basic civic duty to pay their taxes. So, the best thing that you can do is garner a basic understanding of taxes so that you pay them on time and also pay an accurate amount, without much stress - both financial as well as emotional.

Why is it Important to Understand Taxes?

Having a good understanding of taxes will help you save when you are filing them. It has been noticed that about \$945 million in overpaid to the government by American citizens on a yearly basis. That comes up to about \$400 per household; this is an unnecessary expenditure that can be avoided

altogether if you are a little more careful and can understand the system of taxation. Not just this, but understanding about taxes will also help save you time and work. By understanding the system of taxation, you can manage to save a couple of hundred dollars on transportation costs incurred or even childcare and so on. The other advantage of understanding about taxes is that it will help you get a better idea of your budget. You will be able to carry on with your monthly planning in a better fashion and your company's yearly spending as well if you can understand how much you are supposed to be paying. Frankly, no one really likes financial surprises unless it happens to

be a windfall gain.

How Tax Works

Whenever you pay taxes, this money goes directly into the coffers of the government, whether local, state, or Federal. This money is pooled together and then allocated to different projects and services, ranging anywhere from the regulatory agencies that are entrusted with the work of ensuring that the medicines you need are safe and that the roads you drive on aren't filled with potholes. The tax system is complicated, but then again, there are a lot of regulations set in place to help you increase your savings and will also help you spend more wisely. For instance, if

you take any money out of the 401(k) for anything other than your retirement, then it isn't good. The government can levy an additional tax penalty along with the ordinary taxes that you are supposed to pay, in the form of punishment. Another instance would be when you decide to donate to any charity, and then the government will reward you for this by reducing your tax liability.

Tax Terms

Withholding

This is the amount taken out of every paycheck you receive to pay for the income tax at the end of the year. When you fill out the W-4 form at your job, you

will be able to designate what your exact withholding will be.

Deduction : This is similar to a discount on tax, and is a dollar amount subtracted from your income. It is taxable and thereby reduces the amount upon which you are liable to pay tax.

IRS

IRS stands for the Internal Revenue Service, and this is a government agency that is solely responsible for the collection of taxes from all those who are liable to pay taxes according to the law.

Capital Gains

This is the profit that you may receive from investments on capital assets like stock, bonds, or even real estate. A capital gain is a difference between the selling price and the purchase price. For instance, you have purchased stock for \$10, and you have sold it for \$20; your capital gain on such a transaction would be \$10.

The common types of taxes you need to know about: There are different types of taxes, but the following are the ones that you need to know about.

Payroll Tax

Everything that is taken out of the paycheck you receive is the payroll tax. This includes the federal as well as the

state income taxes, Medicare tax, and social security tax withholding as well. It also includes a couple of local taxes that include city, county, or school district taxes and also the state disability or unemployment insurance.

Income Tax

Income tax, as the name suggests, is the tax that you are bound to pay at the end of the year to the federal and the state governments. If you are engaged in salaried employment, then this amount is withheld from your monthly paychecks. At the end of the year, you need to calculate how much you owe, and accordingly, if you have paid excess, then the government will refund the

difference, but if you have paid too little, then you will need to pay the rest. If you happen to be a freelancer, then you are supposed to pay these taxes quarterly. If not, then it is your responsibility to pay what you owe to the government in full in April, and this can include the penalty for the nonpayment of tax. For instance, if you are earning \$1000 a year as a freelancer, then you are supposed to save up at least 30% of this for taxes and I would advise you to talk to your tax advisor as soon as you can to ensure that you are indeed setting aside the correct amount.

Sales Tax

This is the tax levied by the state

government; you might not have realized this yet, but you pay this tax whenever you buy something. If you reside in Delaware, Oregon, Alaska, Montana, or New Hampshire, there is no sales tax there. The rate of sales tax varies from one state to another. For instance, it is about 8.75% in California and 4% in Hawaii. Sales tax is always included on the receipt you are given whenever you make a purchase or pay for a service. The next time you go to a restaurant, you will notice this on the receipt that they give you. Once you have paid this tax, you needn't worry about paying it again for the same transaction. The tax that is charged on every sale is sales tax.

Capital Gains Tax

Capital gains are the profits that you make on the sale of your investment. The difference between the low-cost price and the comparatively higher selling price gives you the capital gain. For instance, you purchased stock for \$100 and have sold it for \$120, the capital gain you have incurred is \$20, and the government will levy a tax on the \$20 you have made. In case you have sold this investment before the end of the year, that is, you haven't held it for a year, then you needn't pay capital gains tax. You will just need to pay the normal income tax that includes short term capital gains as well. In a bid to encourage long-term investments, if you manage to hold onto the investments for

a year or longer, then you are entitled to pay a lower capital gains tax. You will need to pay this tax along with all the other taxes in April.

Property Tax

This is the tax levied by the government on your home and all the property that you own. It could be a piece of land or your cabin in the woods. You will be taxed on all the property you own regardless of it being free or clear of any charges of a mortgage. As long as the property is registered in your name, you are liable to pay this tax. The local government usually collects this tax, and it goes toward the funding of local schools, law enforcement, development

and maintenance of roads, and more. You might pay this tax on a semi-annual basis, and it is often a part of your monthly mortgage payments so that you don't have to pay a lump sum amount in April.

What You Can Do About Your Taxes

So, now that you have a general understanding of how taxes work, you will probably be wondering what it is that you are supposed to do. Here are some of the general guidelines that you need to keep in mind to ensure that you are paying exactly what is required of you and nothing more than that.

Get your Withholding Correct

Every month, a portion of your paycheck is being withheld toward the payment of taxes. Such a portion is referred to as withholding, and it might seem a little upsetting that a chunk of your money is being withheld from you every month, but then it is less painful than having to pay a lump sum at the end of the year. If you happen to have a salaried job, then you should fill out the W-4 form on the first day of starting the work so that your company will know how much money needs to be deducted from your paycheck every month toward taxes. If you fill it out carefully and wisely, you will likely end up paying exactly the amount that you owe, nothing more than

that or nothing less. You needn't hesitate to fill out the W-4 form once again when this situation changes or when you realize that you are withholding either too much or way too little.

Get Everything You can Tax-Free

The flow of your money will go something like this. You get paid, then taxes are levied on whatever you earn, and the money that is left over is what you can make use of to buy things. But there are a few things that you can purchase with your pretax income, and these things include the savings you might make for retirement, pay for any childcare, perhaps buying a subway pass, or even paying for your medical

expenses. This means that if you transfer money for any of the purposes mentioned above, as part of your 401(k) from your paycheck, you will not be taxed for them. This is what tax savings are all about.

Stay Organized

If you want the season of taxation to be relatively stress-free, then all you need to do is stay organized. Even if you don't have to file your taxes on your own and have got a tax preparer, such a person is likely to charge you less if you hand over the exact documents instead of just dumping stacks of paper on their desk that they will have to sort through. You need to ensure that you are keeping track

of all your papers if you want to itemize all your deductions. The list of papers and documents you should save includes confirmation of all returns and refunds, including those from the government, records of all charitable donations, including receipts, and documents relating to large medical or dental bills that you have incurred during the year. You should keep business records, including recruitment costs, forms from your employment that show your exact income, receipts for additions or repairs to the existing property, and investments or properties acquired. Plus, you need all paperwork relating to movement in your investments and IRA accounts, including all the online brokerage

charges that you may have paid.

To sum it all up, taxes are indeed complicated, but if you put in a little bit of effort initially, it does get easier at the end of the year. Don't forget that there are millions of Americans, just like you, who file and then pay their taxes. Understanding the basic underlying concepts of taxation can help you not only to save a lot of money but will also help you reduce stress during the season of taxation.

Chapter Understanding Business Structure

Two: Your

Small businesses may appear trivial to many, but they make up an essential part of a country's private ownership workforce. Well, if you've picked up this book, I'm pretty sure you might have expected me to start with some essential tax strategies. On the contrary, we won't be looking at the basics of taxes yet. This is because your business structure has a significant effect on how the organization's returns, deductions, and expenses are reported to the government for tax filing and deductions.

This chapter spans through various parts of the business structure. Hence, if you are still starting as a small business owner, or you'd like to change your business structure to a more suitable one, the discussions outlined in this chapter can influence your decision-making process positively.

You will learn the various business structures that align with a small business owner, their basic requirements, strengths, and weaknesses, how they are taxed, and how you can switch from one business structure to another.

Sole Proprietorship

More than 50% of small business owners run their businesses as sole proprietors. This is because running and starting up this type of business is much easier when compared to other types of business structures. Generally, if you form and operate your business alone without any form of a legal entity, you are considered a sole proprietor, while your business is called a sole proprietorship. Because this business structure is well used by many, you may even think the term connotes a grocer, a retailer, or a salesperson. You may be surprised to learn the truth!

Well, for tax enforcement activities, a sole proprietor is an incorporated company that is singlehandedly managed

and owned by one person. Hence, the likes of lawyers, doctors, and accountants are not excluded. In other words, those that have developed their skills and expertise in any professional area can also fall under this type of business structure. For example, an accountant may set up a consulting firm to meet the needs of small businesses. All this still falls under sole proprietorship. Most companies fall under this structure. More than that, a lot of big corporations that have grown to cover various economies of the world started their businesses as a sole proprietorship.

There is no serious legal work or formalities required when running a sole

proprietorship. However, you may need to register your business by filing a form stating your business name and type of service.

As a sole proprietor, you are solely responsible for any debt your business incurs. For simplicity's sake - if you default on a loan, the lender may ask for reimbursement of the loan from other personal income and assets of the business owner, which may include bonds, shares, and property. This implies that the business entity is not entirely separate from its owner.

Pros

The benefits of going solo as a business owner may outweigh the disadvantages

or vice versa, depending on the type of product or service involved. The following are some of the benefits of going 'solo' as a business owner.

- **Easy to Establish** : As a sole proprietor, you don't need to negotiate for any legal agreements since you're not in partnership with anyone. In other words, there is no form of governing board and complex valuations of the company shares. You are only required to start and run your business.

- **Low Start-Up Cost**: Since there are no partnerships and legal agreements, the cost of establishing the business is generally lower.

- **High Level of Flexibility**: This

business structure offers a high level of flexibility to owners. Sole proprietors can easily switch to other business structures when necessary.

- **Full Control:** You have complete control over all the operations, as the single business owner, and you get to call the shots when necessary. Hence, decisions relating to the growth of the business are entirely made by you.

- **Tax Filing:** Here, income taxes are quick and easy to file. You can do this by using section c and adding the revenue and loss generated from the business to other income on your tax returns.

- **Mouth-Watering Retirement Plan:** You can save a large part of your

company profits in a tax-favorable pension plan. The above-listed benefits do not mean that going 'solo' as a business owner doesn't have any underlying drawbacks. The following are some drawbacks of going solo as a business owner:

Cons

A significant drawback of this business structure is that the personal finances of the business owner and those of the company are the same. As the business founder, you are financially liable for any liabilities or commitments of your company. In other words, if your company can't pay its debts, your creditors may be able to gain access to

your accounts, assets, or properties. This implies that you cannot declare your business insolvent without declaring personal insolvency. Declaring your business insolvent involves including your earnings, income, and assets. As a sole proprietor, when a business goes bankrupt, other assets of the business owner will be assessed for bankruptcy.

Other Drawbacks Include

- **Raising Funds for Growth:** Picture your small business in the near future. Would you still prefer a one-person business? Expanding your small business will require more funds. This is particularly accurate if you'd like to leverage on a new market and increase

your market share. This may be hard to achieve. It is generally challenging to raise funds required for business expansion.

- **Single Owner:** If you intend to provide qualified employees with small ownership stakes in the business, it may be challenging to do this in a solo company.

Here is an Exception: You can only split ownership stakes with your spouse and only if your spouse "participates significantly" in the business. In this case, you both need to file for schedule C separately and pay for social security tax on your earnings separately, which may require more work.

- **High Audit Risk:** According to the IRS (the Internal Revenue Service), audit mistakes and fraud are usually severe for solo businesses. Because of this, they may audit such businesses at a higher rate.

Don't Get Me Wrong; I'm not trying to talk you into or out of this business structure. Just like I stated earlier on, you may need to evaluate the benefits and the risks accruing to your business, specifically if you are still starting out. You need to consider the weaknesses and strengths that may work best for your business and other alternatives that would suffice if the drawbacks are more than the benefits.

Partnerships

This occurs when two or more entities come together for business purposes. A partnership can be in the form of two or more individuals coming together or if two or more business entities (only occurs in rare cases) come together for business dealings. The goal here is to spur business growth and increase market dominance.

The requirements expected of this business are quite similar to those of a sole proprietor, but this time, with noticeable differences (two or more owners). Partnerships, just like sole proprietorships, are required to obtain their license and business statements, but

they generally do not have to pay income tax.

A business partnership is generally known as a flow-through entity. Thus, the income and returns generated from a partnership business structure flow into the partner's tax returns. To do this effectively, schedule k-1 is issued to stipulate each partner's share of the income generated from the business, so that these items can be factored into each partner's tax returns. The expenses are not excluded, either. Every partner in a partnership is expected to share the gains and losses accruing to the business. In contrast to a sole proprietorship, co-founders or partners are given draws of money rather than

wages. Draws, in this case, do not mean expenses; they are transferred from the business to the co-owners of the company.

Partnerships - Pros

The benefits of forming a partnership with two or more entities are quite similar to those of a sole proprietorship. If two or more entities or individuals come together to become one, it is known as partnership. It is best to have a written agreement stipulating the role, earnings, and other essentials of each partner.

However, the following are some of the benefits of this business structure:

- **Easy to Establish and Dissolve:** Just like a sole proprietorship, partnerships are easy to build and dissolve when required. While it's best to have a written agreement regarding the role of each partner, it is not compulsory. On the other hand, you can easily dissolve a partnership just the way you would when closing down a business. This involves calling off the partnership or entity.

- **Low Audit Risk:** This is one of the reasons why this business structure is preferred to sole proprietorships or a C Corporation. Generally, partnerships have a lower audit risk when compared to most business structures. This is particularly true as these entities do not have any form of tax liability.

- **Flow-Through Entity:** As stated earlier, the business is a flow-through entity. This implies that the business does not pay tax; instead, each partner pays a tax amount on the income generated from the business, which is dependent on the marginal tax rate of the partners.

Partnerships – Cons

While it is quite easy to form a partnership between two or more individuals or entities, when this single entity splits, the outcome may become chaotic. It becomes more chaotic if there are no forms of written agreement stipulating the role, earnings, and other essential factors of each party

concerned. More than that, a partnership does not offer immunity from corporate liability. Similarly, each party may be held legally liable for the actions of the other.

Corporation

Technically speaking, a business corporation is one whose owners are entirely different from the business. It can be defined as any legal entity that is entirely different from its managers, shareholders, and other business executives. Hence, individual assets, income, and property are protected in the case of lawsuits and loan defaults.

Most corporations commence as C

corporations rather than S corporations for taxation and legal purposes. One of the underlying benefits of a corporation is the division of legal liability.

An adequately designed corporate entity will have its legal obligations and liabilities. However, this does not indicate that the business shareholders and managers can be sued or charged, nor does it imply that the business owners or shareholders can be held responsible for the acts of a corporation — these situations undoubtedly do exist. That being said, a corporation is often seen as a separate entity from its owners. Because a corporation is a distinct legal entity from its owners, they file their tax returns separately too.

Annual meetings of shareholders are essential to keep the shareholders informed on the major happenings in the business. You also need to keep proper records of these sessions.

In your locality, filings will be made with the agency responsible for carrying out corporate duties. This requires extra work (however, your lawyer may be willing to shoulder the extra work for a service charge). These advantages do not mean that they are left with no drawbacks.

Limited Liability Company (LLC)

A Limited Liability Company (LLC) is

also one of the latest types of corporate entities. They are much more of an informal company than just a corporation. For instance, there are not legally required to hold annual general meetings (although many do). A fully developed Limited Liability Company provides legal protection. This is quite similar to corporations. The key distinction of a limited liability company is its operational and contractual agreement.

Switching Business Structures

Sometimes you can start your small business with a specific business

structure and decide to change into something more favorable for your long-term prospects. In certain instances, you can switch through structures.

As stated earlier, it is usually less strenuous to move from sole proprietorship to any other business structure. A sole proprietorship is not a distinct entity, so the whole switching process may appear more like creating the S corporation from inception, specifically if you decide to switch to an S corporation. Although you can use the day the new structure was established as the stop-date for recording your revenue on a Schedule C for tax compliance considerations, you can also record such information as an S corporation.

In like manner, you can also switch from a partnership business structure to other forms of business structure (for example, if you are the only partner left in the company, you can go solo as a business owner). Partnerships involve the collaboration of two or more entities that operate as an organization. Hence, when other partners in a partnership exit the business, another easy route to rejuvenate such business is to go solo as a business owner.

You can, as well, decide to switch from an S to a C company or otherwise. Keep in mind that if you switch to an S corporation, you must be prepared to act as an S corporation. This may also result in some tax implications.

If you decide to switch from a C to an S corporation, you may incur three specific taxes. The first one is capital gains on assets that increased in value and have been disposed of within a decade of the company incorporation. Next, if a C corporation has employed the LIFO (last in first out) inventory in the past, they must pay a tax on the benefits derived from such use.

Lastly, an S corporation that has transitioned to a C corporation must pay a tax if the passive income generated from an investment, like capital gains and dividends, is more than 25% of their gross revenue. Plus, they have cumulative profits and returns from the period when they were regarded as a C

corporation. An important caveat is that the accumulated operational liabilities of an S corporation, from the time they were a C corporation, is not taken into consideration during these deductions.

Moving from being an S corporation to a C corporation is much simpler. It may be imposed on you if you cannot keep up with the standards of the S company. Bear in mind that if you transition from an S to a C corporation, you will not be able to transition back to an S corporation within five years of this modification (unless the IRS approves the restructuring, which rarely occurs).

While you can switch from both an S and C Corporation to any other business

structure like the limited liability company, the tax implications of this action are always an issue of concern. For federal tax requirements, the corporation must disintegrate; thus, the corporation's members may have to pay massive tax on capital gains.

Additionally, transitioning a Limited liability Company to another business structure is rare, because such a company can choose to be treated like an S or a C corporation. An active limited liability company can issue a Form 8832 that will be taxable as a C business entity, or a Form 2553 that will be taxable as a business entity. Remember that if the company wants to be paid as a corporation for the whole year, such

forms have date limits.

For best results, when switching business structures, ensure you examine and evaluate your choices with a tax specialist and a lawyer before making the final move. This will help you have a full grasp of all the necessary rules and tax consequences of your actions.

Choosing the Best Business Structure for Your Business

There is no right or wrong business structure. To decide the type of structure that works best for you, you have to consider the tax implications, legal issues, and your overall business objectives.

But before anything, identify your business objectives. Let's assume you have launched a hi-tech business that you intend to take public within a short period; you may want to consider going corporate (specifically as a C corporation). On the other hand, if you're a California estate developer, just launching out as a Limited Liability Company should be your best shot.

Generally, the decision of every small business owner will be unique, as every business has some essential factors that govern such a decision.

However, the following factors will play a primary role when deciding the best business structure for your small

business.

- The level of income and expenses;
- The tax plan that works for your business;
- The level of awareness you intend to drive;
- The number of partners, investors, and business participants;
- Your business location, company priorities, objectives, and marketing strategies;
- The cost estimate of establishing a given structure and financial capabilities of founders.

A major determinant of the success of

any small business is its structure. Choosing the company that is best for your business wisely is important, making adjustments when required, and taking advantage of the benefits of your business structure.

Chapter Three: Business Tax

What is a Business Tax?

If you're a grown adult, we expect that you have already had your introduction to the world of taxation and taxes. The world of personal taxation can be a bit different from the world of business taxation. Business taxes operate differently and can be either easier or more difficult to manage.

These taxes are easier to manage for business owners who have come prepared with their homework done. Others who haven't done their homework will struggle and will more than likely

benefit from paying a consultant or accountant to help them handle their tax issues.

While the taxes and the legal fees you pay generally depend on the kind of business you are running, we believe that the taxation in the market is usually broken down into three parts. Each of these parts plays an integral part in the business taxation process and can come in handy to make sure that you adhere to tax regulations at all times.

The three types of business taxes we are talking about include:

Income Taxes

Almost every business organization in

the world must pay income taxes on their business income. Now, you might wonder how the government tracks the income you are generating. This brings us back to Accounting 101, where you were taught the uses of your annual income statement and balance sheet. The income statement comes in handy for stakeholders, including the government. The government doesn't just look at your income statement just to congratulate you on how well you are doing. There is a reason why they are so interested in that income statement of yours, and that reason boils down to the big fat dollar. The government needs to tax you, and they realize the best way to tax you is by keeping track of your income and then

applying the necessary tax on it.

If you don't pay the government on time, you will be hit with plenty of penalties, fees, and interest. You need to pay quarterly taxes so that you comply with the schedule given out to you by the government. Messing with this schedule does not bode well with the government as they want full compliance from your side. There are corporate rates set for C corporations to pay their taxes; while all other businesses are taxed at a pass-through rate and are given individual rates, C corporations pay the corporate rate.

Estimated Taxes

Carrying on from the information we mentioned above, all independent contractors, freelancers, and small business owners who are expected to pay over \$1,000 in taxes should estimate their quarterly taxes and should pay them on time. This means that they should pay four installments throughout a year to meet the total sum of their taxed amount.

This just goes to prove the importance of taxation and how it can impact your business going forward. Failure to pay these four installments or not paying the dues in full can impact your business negatively. It can land you into uncharted territory with a lot of taxation and penalties to pay. Believe us when we say that you don't want such a

problem when you are just starting your business. You want to be sure that the money you earn isn't wasted and that you manage your tax responsibilities in time.

Self-Employment Taxes

Self-employed people also have to pay taxes related to self-employment. These taxes are meant to help you with Medicare taxes and Social Security taxes. The relevant authorities might differ from country to country, but the usual nitty-gritty is the same.

Self-employment taxes should be paid in the following circumstances:

- When you have a net income of \$400 and above.

- You work for a controlled religious organization exempted from Medicare taxes and social security taxes and are earning over \$108.28 in income. This statute applies to all other ministers and nuns.

As your business grows, you will hire employees, and that will further increase your taxes. You have to make sure that you only start hiring employees when it is necessary because your total taxes will rise a bit after you start hiring. Once you hire employees, your employment taxes will also increase and will now include:

- All social security and Medicare taxes for the people employed.

- FUTA or Federal unemployment tax
- Federal incomes for tax withholdings

The taxes you pay heavily depend on the kind of business you are running. You could be paying taxes for anything from the impact on the environment to the daily fantasy sports you play. It cannot be denied that businesses are right in the center of the world of taxation, and we haven't even studied all the basic details yet.

What are the Main Taxes?

Obviously, by now, you will be concerned about the main taxes that you will have to pay for keeping your business alive. If your small business

has had a roaring start, you need to be aware of the taxes that are soon coming your way. Death and taxes never leave you, which is why it is necessary that you know the taxes you will have to pay.

We are going to examine some of the taxes your business may attract and what impact they will have on your business. It is wise to have an understanding of these taxes before you start your business, as scrambling to catch up afterward will be a waste of valuable time and resources.

Some of the taxes that you will have to pay to include:

Corporation Tax

Corporation tax is the tax that is put on the taxable income or profits made by limited companies all over the globe. If you are new to the world of business, you will want to know what differentiates limited companies from other companies. Limited companies are known as such because of the limited liability they carry. These companies sell shares and stakes in the market and have plenty of shareholders/owners, each of whom has a part-ownership in the business. That means they each get a share of the profits, equal to their investment, but the trade-off is that they must share the tax burden.

Limited companies can also be split into public and private limited companies.

Public limited companies usually sell their shares on the open market in stock exchanges. No doubt you are aware of stock exchanges and the way they function; many people turn to stock exchanges to buy shares, and this is where almost all companies list theirs for sale.

If you have shares to buy or sell to the public, the stock exchange is where you go. Private limited companies are more secluded, as the owners only sell shares to the people they know, like friends and family. The shares aren't marketed or presented in a public stock market, which is why these are known as private limited companies.

Calculating corporation tax can be a bit of a hassle as companies have to calculate their own taxes without any flaws. These taxes should be paid in a calculated manner to the IRS without any prior assessment.

There is a fixed rate for corporation tax in every country, which is why you should study the relevant statutes for your own country and make a conscious decision for tax payments based on those rates. You shouldn't ignore the rates that come with corporation taxes, as they determine just how much you will have to pay to the government.

Value Added Tax

Value-added tax or VAT is usually a tax that is collected on the final consumption of goods by consumers in the market. However, this tax is charged and collected at every stage of the production process, where you add value to the goods you are manufacturing. Most business goods and services are hence subjected to VAT because of the value enhancement they are performing on goods. If you are located in the USA you don't pay VAT tax.

Taxes by Forms of Business Organizations

The tax market in the United States and the world over is quite broad when it

comes to taxing businesses. Not all small businesses are put through the same cookie-cutter approach, as there are different legal forms of business. Every legal form of business has different tax rates and should be tackled accordingly. To better understand just how business taxation works, we must understand just how the taxes work for these different business entities.

The United States has five different legal business structures. These business structures include S corporations, partnerships, sole proprietorships, C corporations, and Limited Liability Companies or LLCs. These categories can further be shortened by grouping the legal forms of businesses into two major

subgroups, including C corporations and pass-through businesses of the legal world.

There can also be double taxation on certain companies, which we can explain in detail below:

C Corporations

A corporation is an independent legal entity that is completely owned by shareholders. The good part about corporations is that the entity will always remain the same even after the shareholder's change. This will make it easier for organizations to buy and sell the shares sold by these corporations.

The corporate world dictates that the

shareholder's investments will directly correlate to the amount of business burden they must bear, and that includes taxation. This means that the shareholder will only assume as much responsibility as the amount they are investing within the business. The United States has two different types of corporations; C corporations and S corporations. While both these corporations happen to share almost the same legal rules, they can hugely differ in the way they are taxed.

C corporations are usually taxed twice that of S corporations. Since C corporations give their shares over to shareholders in a stock market, they are also taxed when paying the dividends.

C corporations have to pay taxes when they declare their income, and they also pay taxes when they pay dividends over to their shareholders. This is how they eventually end up being taxed twice. The sad part about this entire taxation process is that the company itself and the shareholders must bear the brunt of the taxed amount.

Pass-Through Businesses

There are usually three types of pass-through businesses. These businesses include sole proprietorship businesses, S corporations, and partnerships. If you are just starting your business, the chances are that it is small in size, and will come under one of these types of

pass-through businesses. Your business will typically be either a partnership or a sole proprietorship. If that is the case, then your business will be taxed as a pass-through business.

Almost all pass-through businesses do not pay taxes at the business or corporate level, and the business is not required to file taxes or submit tax returns. Instead, every partner and business owner must pay taxes for the income they have earned from the business. However, because no dividends, as such, are paid to shareholders, pass-through businesses are not faced with double taxation. Owners of such a business are only taxed once. If your business is a pass-

through business, then you too would be taxed just for the earnings you are transferring to your name, you wouldn't have to pay any additional tax on the amount that your business has earned.

S corporations are a bit similar to C corporations in how they sell parts of their business through their shares. However, S corporations aren't listed as part of the stock exchange and don't sell shares in bulk to the general public. S Corporations can have a maximum of 100 shareholders at a private level. These shareholders usually comprise of friends and family, who they can work with to generate profits. The investment generated through these shareholders plays a significant role in determining

the kind of profits the S corporations make.

Most S Corporations also start their journey as sole businesses but increase the scope of their operations with time. Once they start targeting a bigger segment of the market, they realize it is time to expand and bring shareholders on-board, thus raising extra capital for the business.

All of the 100 shareholders in an S Corporation pay their own taxes from the amount of dividend they get. This is where the fundamental difference in the way S Corporations and C Corporations are taxed arises. Most C Corporations have to go through double taxation, as

the business first pays the tax, while all shareholders then pay the tax on dividends they receive. S Corporations, on the contrary, only pay tax once.

Chapter Four: What is the Tax Rate for Small Businesses?

Income Tax

In the United States, the rate that is levied in the form of income tax varies from organizational structure to structure. The tax rate imposed on the sole traders and pass-through entities are basically similar to the rate the individuals and owners are liable to pay on their incomes. For the last year 2019, the personal income tax rates depended on the income level and filing status. It ranges from 10 percent to 37 percent.

Sales Tax

The rates of General Sales Tax, commonly referred to as GST, might be different in various states and localities in the USA. Despite that, no law in the US can implement the federal sales tax. Still, different localities in 45 US states impose sales tax on producers and consumers. In these states, the business owners and management are assigned the responsibility to calculate, collect, and report the sales tax to local and state governments.

For customers, the amount of sales tax is already included in the price of the product they purchase. The sales tax is to be paid during the purchase of goods

and services when they pay for the utility. Recently, in a session, the court decided that even some e-commerce sellers and retailers should initiate the collection and reporting of sales tax from the customers, purchasing from outside the state. Being the owner of a small business, it is essential to know about the rules and regulations subject to the sales tax levied in your state and locality.

Value Added Tax

The Value Added Tax is a form of sales tax that is subject to the purchase of most goods and services. It must be collected and submitted by the retailers or sellers to the government revenue department of

the United States. The standard rate of Value Added Tax in the US is determined by the central planning authority and by the state itself. Currently, the tax rate in the United States is 10 percent. However, the standard rate of VAT is set to 15 percent. Other than these rates, many local rates are imposed by the state after the reduction. This is based on the availability and the size of service sector operations in that state. Such reduced taxes are called a truncated rate and range from 1.5 percent to 10 percent.

If your business is located in the USA you don't have to pay VAT tax.

Self-Employment Tax

Self-employment taxes are imposed on self-employed individuals, which includes Social Security and Medicare. Individuals are responsible for paying such taxes only if their net earnings from self-employment last year are either \$400 or more. Almost all businesses pick up half of the responsibility for contributing to the Social Security and Medicare taxes on their employee's wages. In contrast, the other half of the tax is collected or deducted with consent from the employee's paycheck and remitted by the business. But in the case of self-employed individuals, they have to pay the entire amount for such taxes.

However, for those self-employed individuals who are, for example, working for a church or on a fishing crew, special rules apply.

In the United States, the rate for self-employment tax is 15.3 percent. The rate is further divided into separate contributions, Social Security and Medicare. Social Security, which is the amount to be saved for employees to help them with their old-age, survivors, and disability insurance coverage consists of 12.4 percent. In contrast, the other part, Medicare or hospital insurance, consists of the leftover 2.9 percent of the tax.

Employment or Payroll Tax

The rate of employment or payroll taxes includes the following:

Social Security Tax

For the year 2019, the rate of Social Security Tax had been set to 12.4 percent. It is imposed on the wages paid above the \$128,400. Usually, it is the responsibility of an employer to pay $\frac{1}{2}$ of this percentage, which means 6.2%. In contrast, the remaining half of the Social Security tax is taken out from the employee's paycheck. But if you are a self-employed individual, the self-employment taxes are to be paid by you in full.

Medicare Tax

This type of tax is also split between the employer and the employee contribution. Without considering any threshold, 2.9 percent of the total wages is the rate that has to be paid for the Medicare tax. Individuals that are earning more than \$200,000 each year are withheld with additional Medicare requirements.

Federal Unemployment Tax

Currently, approximately 6% of the total Federal Unemployment Tax is imposed and deducted on the first \$7,000 you pay to an employee. If you have paid state unemployment taxes, then you are eligible to claim it for a tax credit.

State Unemployment Tax

In the United States, each state is given the right to decide the rate of unemployment tax to be charged. While determining the rate of unemployment tax, generally the years of operation and size of the enterprise, the industry it is categorized under, the typical turnover rate, and the number of former employees who have filed for unemployment benefits are taken into consideration.

Excise Tax

The rate of excise tax greatly depends on the different range of products you are selling on the market. Some states, in the US, charge this type of tax. The excise tax rate applicable today was first

introduced in 2016, in which the top 1% earners were bound to face an average excise tax of 0.2%, whereas the bottom 20 percent of earners are subjected to a rate of 1.8 percent.

Import Duties

The rate of tax applicable for import duties varies from country to country, depending on the aim and objectives of the government. Import duty is considered to be a protectionist policy that a country implements to reduce imports and improve the balance of payments. It is one of the legal barriers a country might keen to use to restrict imports.

In the US, approximately 96 percent of imported merchandise is industrial goods. It means that each year, the US government has to maintain its foreign currency reserves and also has to increase exports. These cancel out the negative effect created through the burden of imports.

Property Tax

When considering the nature of sales tax when determining its rate imposed, property tax is almost the same. Property tax also varies massively based on the country, state, and town, where your owned property exists. Each time an individual or a business purchases a property, whether an office or a multi-

story bungalow, registering it with the local tax authorities is one of the priorities. The agency will then send you the information regarding the tax rates imposed on your property and the deadlines before which you will have to file the taxes. Property taxes are imposed on the assessed value of the property and not the price you purchased it for or the current market value.

Chapter Five: Things to Note when Starting your Business

Starting a new business is more than just a step for many people. It is the culmination of all that they have dreamed of following years of struggle and hard work. The business is a dream come true for them. All the hard work they imagined and all the ideas they had in mind are finally about to be turned into a reality.

When you do start your business, you come to realize that the world of reality is a bit different from the world of make-believe that you imagined. The reality

can be daunting, and you have to not only manage things the best way but also have to drop whatever you imagined and thought would be best for your business in favor of realization.

Manage Your Cash

The first thing you need to know is just how you can and should manage your cash. The cash you have inside your business is extremely important to help you out through tough times. When you have nothing else left in your business, it is the cash that will make sure that you have positive liquidity and can keep your business running.

Why is liquidity so important for a

business that has just started? Well, liquidity is pretty much what determines how a business is managed and how all the operating expenses coming under the business are met.

What are the Operating Expenses?

These are all daily and monthly expenses you have to meet to keep your business afloat. From something as petty as buying toilet paper for the washroom to paying your employees at the end of a specific period, operating expenses help keep your business on track.

Cash is also important when dealing with customers. You have to procure inventory when dealing with customers and also have to make sure that you have

the cash needed to pay for that inventory. Your inventory can only be paid for if you have a working cash balance at your disposal.

So, how do you manage cash as a new business?

You surely don't have enough reserves and have to make do with the initial amount that you invested in your business.

The best way out of this problem is to follow the tips below:

Budget Appropriately

Your budget is used to decide just how prepared you are for what will happen

in the future. The business quote to follow here is to hope for the best and be prepared for the worst. You should have a contingency plan ready for what happens if the worst-case scenario happens. You should know just how bad things can get and how you should be prepared for them. And how do you remain prepared for tough times? Through a budget!

A budget is what gives you the kind of guidance you are looking for. Your budget is the shining light that helps you overcome tough financial times. The budget should include a specific mention of the contingency plans you have ready to fight financially tough times. The budget is necessary for you when

starting a business, as it also helps you realize the cash needs you might have.

Manage Your Debtors

If you are new to the world of business finance, you will realize that managing debtor is a sure-shot way of retaining control over your business. Your debtors, if you are new to the term, include all clients and other business entities that owe money to you. The money comes under your business assets but isn't easily accessible to you. Once you come across a cash crunch or a situation that can put the liquidity of your business in jeopardy, you must take money back from your debtors. Now, if almost all of your business money is

owed by debtors, you will have a hard time getting money back from them. The debtors won't comply with your urgent needs for money and will give you back your cash in accordance with their own schedule.

Maintain a Cash Flow

Many expert accountants and business professionals believe that you should maintain a cash flow to manage your cash reserves and make sure that your business maintains its liability. Many new businesses commit the mistake of not maintaining or updating a cash flow. This mistake can come and haunt you in the long run, as you come to realize that you don't have a sufficient cash balance

to manage.

The cash flow puts all your expenses and income into perspective and gives you an estimate of where you stand at the end of a year. Forecasted cash flow can also come in handy here, as it puts all-cash forecasts into perspective and gives you a basic estimate of where you will stand at the end of the year. However, no forecast can give you an exact estimate of where you will stand at the end of a year. It all comes down to how you manage your cash.

Maintain a Data-Based Culture

Data sits amid all business decisions

currently, and you must treat it with the same respect as other business elements. Data has changed the way businesses make decisions related to consumers and has also helped them improve their analytics for the better. If you are a business that relies heavily on data, you must keep track of that data and do not let it get out of hand.

The data we are talking about doesn't necessarily have to relate with your customers. The data can be related to you and your business. It can give you a light to follow in testing times.

Understand Margins

While most start-ups start their

operations with only one product to manage, some also start with more than one product under their belt. If you are an organization that is looking after more than one product, then you must understand the concept of margins and how they work. Margins help you understand the profit you are making from a particular sale and how that profit can add up to meet your daily, monthly, and yearly goals.

Do not let your profit and your years of business deceive you into thinking that you are doing alright. Your margins need to be good so that the business can sustain itself even during the bad times. This brings to light the example of a business that was doing relatively well

but had really low margins. Once the business was put up for sale, the owners were expecting a decent response from the general public, but once the responses started coming, they realized that these were not what they were looking for. The responses weren't even near the closest figure they had in mind.

Recruit and Retain Good Talent

Oh, recruitment and talent management! Just so many businesses get the script wrong here. In the ultimate race for profits and growth, you mustn't forget the people who will help you climb to the top of the ladder. Employees are one of

the biggest assets of your organization, and it is in your best interest to respect and understand what they bring to the table.

To begin with, you should start by implementing good recruitment tactics. When you know that you have employed the person who best fits your brand, you should follow that up with an even better retaining tactic. The key is to retain every employee that helps your organization.

Engage in Marketing

Marketing is the best way forward to keep your brand afloat and to create an actionable plan related to it. The

marketing you do for your brand should help improve the customer perception of your company and should also work toward making it easier for you to engage with them.

When you start marketing, you will realize that it isn't the cheapest thing to do. There will be times when you will want to drop the idea of marketing as a whole because it isn't giving you the right rewards, but all such thoughts should be kept at bay. Your marketing might sound like an undue expense to begin with, but you will soon realize that it isn't entirely unnecessary.

You need to prioritize marketing as a means to fulfill your needs and help you

achieve the growth that you want. Customers are only going to buy from you when they recognize what they want from you. You should give customers exactly what they are looking for, in a manner that sounds actionable for them. Give them an idea of what is at play and what you can offer to them.

To make things easier for you when you are just starting your business, you must budget your marketing expenses at the start of a year or a term. The marketing plan you have for a specific period should be created well in advance, and you should know what you are signing up for.

If you plan to launch a new product or

service, you must adjust your budget accordingly. A new product or service will require excessive marketing from your side, and you must ensure that it is planned for accordingly.

Small business owners should target and start from places that are relatively easy to target. For instance, we believe that a small business owner should be starting their marketing campaign from social media. Social media has plenty to offer when it comes to marketing, and the good thing is that you won't have to splash out a buck for the effort that you put in.

There are plenty of options you can try when you are marketing on social media.

Some of these methods can be cost-effective, while others happen to be expensive. It is up to you to decide what your budget dictates, and which options you can afford. You can give your special posts a boost once in a while, but to sponsor every social media post can be a bit of a stretch.

Know Your Market

While this is something you need to do before stepping into a business, it is never too late to study and know your market. You should study the dynamics of the customers that you are selling your products to and should also know the competitors that you are currently fighting against. Remember that

competition is a good thing and you shouldn't shy away from it.

When looking to understand your customers, do not just rely on data from secondary sources. Try to collect your data and run your analysis. See what your customers are capable of and how they go about their buying behavior.

Again, social media is the best way forward to understand the psyche of your customers, and how you can offer them what they are looking for. Social media gives you a chance to be with your customers and talk with them to see what they might want. You might want to tell your customers that you are a brand that has plenty to offer to them. Do not allow

your customers to think of you as just another brand that has a bot operating their social media. Let the customers know that you are an actual human sitting behind the screen and running the account. Find out what they might want or need.

Also, assess your competitors in this study. Know what your competitors currently offer to your customers and what could be the possible pain points in their service. This is again something that you will be better able to find out from your own customers. When studying your competitors, also try to study how they built their brand. Studying the way they built their brand can also help you to put up a reasonable

brand of your own. You shouldn't shy away from an opportunity that presents itself in front of you. Try to learn from mistakes they committed and segments of the market that they have currently left unattended. All of this information will help guide you in the future.

Understand Your Taxes

Finally, coming to the core of this book, you should understand how your taxes work and how to manage them. In a recent study, it was found that not many organizations and entrepreneurs knew how to manage taxes when they first started. They were actually found wanting and had to work their way around the situation. As an organization,

you should also make sure that you understand how small business taxes work and what it is for you to learn.

The whole experience will be a learning curve for you, which is why you should approach it as one. You cannot afford to be non-compliant during the start of your journey. Non-compliance is a term used to define your inability to comply with the taxes and regulations set by your government. This means that you weren't paying heed to these statutes for taxes and didn't take them seriously. State and National governments don't take these violations casually and will slap a fine or a legal penalty on you if you are found breaking this statute.

You can either hire a professional to help you through this or make sure that you learn from the examples of businesses that came before you and study tax yourself and make sure you don't commit the same mistakes as other people before you have committed.

If you are even more concerned about the issue, you can go through this book and learn things you have never studied before about taxes. All of the information in this book will be helpful for you and will help you learn the importance of maintaining a steady tax profile.

The consistency with which you pay your taxes helps determine your success

as a business. Also, with the due knowledge of taxes for small businesses, you can avoid the problems that come with higher tax payments. Do you know you can avoid paying a hefty amount in taxes just by being careful here? Well, if you didn't, then be prepared to be enthused, as there is plenty of information that you will learn in this book.

Manage Your Finances

Many of the businesses that fail to succeed only fail because they cannot manage their finances and the burdens they come with. Your finances can be tough to manage at times, but you must maintain a strict check over them and be

as frugal as you possibly can.

Why do we talk about being frugal? Because you can easily get swayed by the initial sales, your business makes and might be tempted to start spending money unnecessarily. You should also make it a habit to keep your personal finances separate from your business finances. This is also something that we can learn from the example of entrepreneurs before you. Entrepreneurs often end up confusing their business finances for their personal finances, and this can cause real problems. If you want to make sure that your business can succeed or go past the initial hurdles, you must always keep separate records of your business finances.

This stops you from putting profits and income generated by the business into your own personal account without using an accounting process known as a double entry. There's an accounting entry for all drawings you make from the business, and you should follow that entry for future success.

Chapter Six: Taxation for Small Businesses Today

How to Reduce Your Small Business Tax Bill

Running a small business is a hectic yet exciting responsibility. When it comes to managing its taxes, however, this business is no less confusing and complicated than a large corporation. If you own a small business, you must be facing a lot of questions such as; How much tax do I owe? Why am I paying this amount in the first place? What are the possible means to legally reduce my taxable income?

You need to discover ways to reduce the amount of your taxable income. There are legal means to achieve this objective. This practice could have beneficial outcomes for you. For instance, the tax liability on your business might reduce, and you will be able to save more on your income.

Not having adequate knowledge of these might prove costly for a business owner. Overpaying the amount of tax due is just one of the many problematic aspects of small businesses. This only happens because of the want of adequate tax knowledge and skills, even though a small business is managing itself and its retirement savings. Yet, its policies and methods are not efficient for tax

purposes.

There is a good reason why this happens. The U.S. tax code is almost 70,000 pages long. Handling it properly is quite a challenge even for the most experienced of accountants. That is why most small businesses find it very difficult to focus on navigating through it. Trying to minimize one's tax liability using this tax code involves a lot of technicalities and complicated steps. However, this is still possible, and you, as a small business owner, can manage to save money on taxes. All that you need to do is to follow the right strategies, and you will be able to save hundreds and thousands of dollars. This means that your life will be made easier

throughout the year, and you'll get to enjoy useful benefits during the tax season.

How Many Types Of Business Taxes Are There?

There are various types of business taxes currently enforced in the United States. As an owner of a business, no matter how small, you need to have a basic idea about them. Here we explain some basic concepts of different business taxes for you.

Income Taxes

Whether you are a business registered as a C Corporation or you are paying the

taxes on your personal share of business income and expenditures (as in sole proprietorship, Limited Liability Company, S corporation, and partnership) where the concept of separate legal entity doesn't apply, there are quite a few federal and state income taxes you'll have to contend with.

Employment Taxes

Every business has a certain number of employees. The employer is required to withhold employee's income taxes along with their share of Medicare (FICA) taxes and social security. Moreover, the owner is supposed to pay the employer's share of FICA as well as the state-imposed unemployment tax.

Even if you are the only employee in your own business, the law requires you to pay these taxes.

Sales Tax

This tax is only applicable to a few states. If your business involves selling goods and services and your office is registered in a state that requires you to pay sales tax, then you might have to collect this tax on your business transactions.

It is right that the sales tax is collected primarily from the customers. However, business owners might be imposed penalties in case of failure on their part to collect these taxes and pay them to the state.

Excise Taxes

You may have pay excise taxes on fuels, highway taxes for your trucks, and other business-related activities, depending on what type of business you run.

The above are the key taxes that every business owner has to pay in one form or another under all circumstances. However, there are legal means for you to get a reduction in your tax liability. That's what we are about to discuss below.

To help you with the effective management of taxation for your small business, here are some important tips and tricks that you can adopt.

Be Vigilant About Adjusted Gross Income

Most filers treat their modified adjusted gross income (MAGI) as adjusted gross income (AGI). This can be exemplified by the fact that a filer can avoid 0.9% additional Medicare tax on their income arising from salary or self-employment only if their AGI remains under \$200,000 limit. In the case of married individuals, the limit exceeds \$250,000, where they are filing jointly.

Make Sure You are Using Accountable Plans

It is common for businesses to reimburse employees for different expenditures

related to business, such as traveling, entertainment, etc. If you also do that, you should try incorporating a plan that fulfills IRS requirements. This is called an accountable plan, and it can help you to get a reduction in your tax liability.

The accountable plans allow a business to deduct its expenses without reporting these reimbursements as an income to employees. These deductions might seem insignificant, but at the time of filing, you will be able to save quite an amount in employment taxes resulting in the reduction of lowering taxable income.

Keep that in mind that if you don't currently have an accountable plan, your

employees will soon be asking you to make one as a new tax law has disallowed employees from deducting miscellaneous unreimbursed employee expenses. The accountable plan might be a win-win situation. It prevents your employees from incurring additional liability, whereas it also helps your business to reduce its tax.

Never Ignore Carryovers

There are always some transactions that involve such deductions and credits that you can't really use them to the fullest. These limitations might keep you from achieving them in the current year. However, you are allowed to carry them over to the following years.

In case you have any such transactions involving carryovers, you should keep a strong track of them. It is important to be sure to use them in the coming years. Your tax consultant or tax program will know this, and they will be doing this regularly.

Here are some of the examples of these carryovers:

- Capital losses
- Deductible contributions to charities
- General business credits
- Deduction for the home office
- Net operating losses (this is limited to 80% of taxable income)

As an owner, it would be better if you take a personal interest in looking after these transactions.

Extract Income from the Business Using Tax-Free Methods

Every salary you earn, every bonus you receive, and each share of the distribution of the business profits you receive is liable to be taxed. This means that you might get taxed separately on each of these transactions, leading to greater tax liability.

Fortunately, there are ways for you to derive benefit from your business's success without having to trigger the

operation of the tax.

Talk to Your Accounting Department About the Following

- **Obtaining Tax-Free Benefits:** These will include medical coverage and retirement plans.
- **Getting loans from the business on a low or no interest basis .** Keep in mind that, in the event of the loan interest being lower than the rates prescribed by the IRS, the business might be under an obligation to report this arrangement. Since interest rates are affordably low these days, this won't be an expensive

arrangement.

This could be a very helpful trick to bring down the tax liability on your business.

Abandon the Properties Instead of Selling them

If you own a property that has no value to the business, then you should abandon it instead of selling. Your accountant can guide you better about the abandonment instead of the sale of the property at a nominal price.

By doing this, your business will sustain a minor loss on the property. This loss is completely deductible. Treating the loss as a capital loss will not be very

advantageous because it is restricted by certain limitations. What type of loss the property will be categorized under depends entirely on the type of property.

Fringe Benefits Plan

If you have employees, the business pays them salaries. However, it is important to mention that the additional wages might incur more employment tax costs for a business. The only way to avoid these costs is by paying through fringe benefit plans for employees.

This plan is an important way for you to bring down your overall tax liability. Some of the tax-exempt benefits that you should consider providing your employees as benefits will be included

in the following:

- Healthcare benefits
- Insurance coverage for disability
- Long-term care insurance coverage
- Transportation benefits
- Meals provided for the employees

This fringe benefits plan is a legal yet highly efficient way to ensure that a business's tax liability is reduced.

Shelter Profits in Retirement Plans

Setting up a retirement plan for the employees might be a good way to save on the costs of tax liability. The retirement plan will help you and your

employees to save money on their taxes. This tax-deferred retirement plan prevents the employees from paying taxes just as they have to pay on contributions to a traditional retirement scheme.

A business has multiple choices for retirement plans. Which one you should choose will depend on the particular situation. The plan must cover each employee on a non-discriminatory basis. Making a 401(k)-retirement plan means that almost all the cost of savings is shifted to employees, and they have the choice and option to plan for their own retirement. This plan is better than a defined pension plan in which the employer is supposed to be bearing most

of the burden.

Since we are talking about lowering tax liability using legal means, a retirement plan is one way to attain this objective. Such a plan is not only beneficial for the employees, but it also helps your company. The reason for this is that most of the employer contributions to an employee retirement plan happen to be tax-deductible. This means if you set up a proper employee retirement plan, you might qualify yourself for a tax credit!

Strong Year-End Planning

Tax is supposed to be planned throughout the year, yet taking adequate steps at year-end might dramatically save you money.

If you, for example, conduct business on a cash basis for accounting, then you can save the tax liability by delaying the billing for the work done late in the year. That way, you will receive the payment in the following year, thereby reducing your business's tax liability for the present year.

However, you must be sincere about the realities of your business. You should not be deferring income in situations like cash flow shortfalls or concerns about a customer's ability to make the payment. It is better to discuss this decision with your accountant.

There are multiple strategies for you to employ at the year-end tax-planning

scheme. If you are planning to purchase certain types of fixed assets for your business, then keep this decision for the year-end. Purchasing these assets at the end of the year will make you eligible for a portion of depreciation immediately! Another way is to keep revaluing the assets from time to time. This helps lower your business's net profit as the amount of depreciation on the asset increases.

Chapter Seven: Tax Accounting

No matter what kind of business you run, there will come a time when you need to file your taxes. In your first year, you may not need to do this as you get things organized and up and running. But after that, or once you owe \$1000 or more to the IRS if you are a sole proprietorship, then you will need to pay your taxes each quarter. Having accurate records and filling out the income statement, the balance sheet, and the cash flow statement can make it easier to do your taxes.

You can just insert the numbers into your

tax forms, and you can use this information to help you get the deductions to save you even more. With the help of your accountant, you will be able to take all of the documents that you have and get your tax documents all set up and ready. Let's take a look at tax accounting, how it works, and why it is so important to your business to get this done.

What Is Tax Accounting?

Tax accounting is a subset of accounting. It is going to focus on preparing and handling taxes rather than the public financial statements of the company. Tax accounting is going to be governed by the Internal Revenue Code, which will

dictate the specific rules that all individuals and companies need to follow when they work on their tax returns.

Tax accounting is a basic means of accounting to help get taxes done. It can apply to everyone, including corporations, businesses, individuals, and other entities. Even those who have exemptions for paying taxes need to do some tax accounting. The purpose of this kind of accounting is to track the company funds, including incomings and outgoings, associated with entities and individuals. Having proof of all this information can be really helpful at tax time. Even if your income was small enough, or you had enough deductions,

or both, not to pay taxes, it is going to be helpful to have a record of all the funds coming in and out of your business. You can keep track of how your business is doing and can prove your income if you are ever audited in the future.

The Tax Principles vs. GAAP

If you own a business or do accounting in the United States, you will notice that there are going to be two main sets of principles that can be used. These two rules are different, and you should not confuse them. The first is going to be principles that are used specifically in tax accounting, and the second ones will

be for a financial account in general. Under the rules of GAAP, all companies will need to follow a common set of procedures, standards, and principles in their accounting any time that they compile a financial statement and with all of their financial transactions. The GAAP rules will list out all the rules that you need to follow to write your balance sheets, income statements, and cash flow statement.

There are various rules that you will need to follow with GAAP. It ensures that companies are going to record their financial information and that there is some unity between the financial statements. Accounting is going to have a little bit to do with all of the financial

transactions, and tax accounting is going to focus all its energy on transactions that will affect the tax burden of a company, and how those items will relate to proper tax calculations and preparation with tax documents. Tax accounting has some regulations placed on it. It is regulated by the IRS to make sure that all of the tax laws are followed by individual taxpayers and tax accounting professionals. The IRS is also going to use specific documents and forms so that you can submit the tax information properly, as the law requires from you.

Tax Accounting and How It Works for an Individual

Tax accounting can work for both individuals and businesses. First, we are going to look at tax accounting and how it works for an individual. As an individual who pays taxes, tax accounting is going to focus mostly on items like the income of the individual, the deductions that they qualify for, any investments that they earned or lost on, and some other transactions that will affect how much you pay in taxes. This is a good thing because it is going to help limit the amount of information that individuals need to manage to finish their tax returns. You don't have to go through and keep receipts of every transaction that you make, for example. If you make a big purchase, you keep that

receipt, but a grocery store trip isn't one that you need to keep track of at all. This makes it easier for most individuals to get their tax returns done without all the work. With general accounting, the individual would have to go through a lot more work. General accounting would mean that you need to track all the funds that come in and then go out of the person's possession, no matter what the purpose. If you bought some clothes, you would have to write that on the tax return. If you went out to eat, you would have to write that out as well. You would have to write out everything that is a personal expense, even if those expenses had no tax implications. With tax accounting, you only have to keep

track of a few things for the year. You keep track of any income that you make either from investments, from a job or other sources. And then you keep track of the items that can be deducted from your taxes to reduce your tax burden. And then that is it.

Tax Accounting for a Business

Businesses are often going to benefit the most from tax accounting. Tax accounting is going to help a business to keep track of everything that it needs to use for tax purposes. It can also help them to get as many tax deductions as possible to save them money. From the perspective of a

business, more information needs to be analyzed to finish the process of tax accounting. While the company needs to track its incoming funds and earnings, similar to how the individual has to, there is another level of complexity that comes with business tax accounting.

This comes with outgoing funds that are directed toward the obligations of the business. There are a lot of different parts that the business needs to keep track of for tax accounting. This sometimes includes funds directed toward specific business expenses or the funds that are directed out to the shareholders of the business. While the business doesn't have to use a tax accountant to do these duties, many

larger organizations will have one. Tax accounting is going to be pretty complex. The larger your business is, the more complex the tax accounting process will be, and having a tax accountant can help make this easier.

How Tax Accounting Works for Organizations Exempt from Taxes

There are some entities or businesses that are going to be exempt from taxes. Even in these instances, the business will need to perform tax accounting. This is mainly because all businesses need to file an annual term. This is true no matter how much they owe in taxes

and even if they are tax-exempt for the year. These businesses will need to provide information regarding their incoming funds, such as any donations or grants that the business gets. They will then need to explain how they will use these funds to help them operate during the year. The point of doing this is to ensure that these businesses are following all the regulations and laws that govern the way that a tax-exempt business can run and operate. Even though these businesses will not end up having to pay any taxes, regardless of how much they make during the year, it is important to fill out the return and keep track of the information. This can show the IRS that you are using all your

funds properly.

Tax accounting can be a difficult part to work on. There are a lot of rules and regulations that a business must adhere to, and making sure that everything is filed right with the IRS is important. Hiring a tax accountant can make it easier to get this done without running into trouble at the end of the year.

Chapter Eight: Owning Your Own Home-Based Business

There are two main income tax laws. One allows deductions for employee items like IRAs and 401ks while the other assists small and home-based business people by allowing them to make tax deductions on their houses, their employees, transportation, dining, and other such items. Building a home-based business allows you to save money every year on taxes by reducing the amount you pay each year to the legal minimum.

The things that you do on a day-to-day

basis can end up saving you more money than you would earn working a second job. Many of the expenses that you have can be deducted on your taxes legally after you start a home-based business. After starting a home-based business, you'll also be able to set up a pension plan and travel around the world as long as you conduct a certain amount of business.

Even if your business isn't profitable, the government will subsidize your business by giving you a return on your income taxes for up to two years afterward, or you can carry over the loss into future income tax returns for up to 20 years. It's risk-free, and there's potential that your business is successful and gives you an

even greater return from what you do every day.

You can start any type of home-based business that you'd like based on what you like to do or something that you're good at doing. You can sell products or engage in services out of your home, or you can consider a network marketing position if you enjoy getting out of the house. If you already have a small business or a home-based business, as long as you do the right activities, then you can take advantage of this great opportunity for American small business owners.

Deductions

Deducting Your Entertainment Expenses

You can deduct your expenses by following a set of rules while doing the things that you love to do. Most entertainment expense deductions are limited to 50 percent, but there are exceptions to that rule. For example, if you went to dinner with a business prospect and there was a business reason for the meal or entertainment that you participated in, then you can deduct it from your taxes as a business expense. There must be a business purpose for the meal or entertainment. It has to take place in a place where you can conduct business, and if you conduct business before, during, or after working hours,

then you can legally deduct the meal.

The important part about being able to deduct your entertainment or meal is to audit-proof these activities. You can do this by keeping all of your receipts for business meals and entertainment, especially those that are over \$75. Write down who was at your business meeting, their occupations, official titles, and any other information needed to show a business relationship. Also include the time, date, and location of where the entertainment took place, write down a specific reason why the business meeting took place, and list how much it cost (being sure to keep your receipt if it's over \$75.) If you keep these records in a timely fashion, then you'll cover

yourself if the IRS ever audits you.

Now let's say that you want to entertain a business client outside of a business setting. In this case, you're allowed to deduct 50 percent of your entertainment expense if it's "associated entertainment." Associated entertainment takes place in a non-business setting where there is no business discussion. As long as you have a business discussion on the same day preceding or following the associated entertainment, then you can deduct this cost from your taxes. Again, be sure to keep track of who you met with, where it occurred, why it occurred, and the amounts of money that you spent to audit-proof your return.

If you would like your significant other to join you during an entertainment event, you can take her/him as long as the person you are discussing business with also brings their significant other along as well. You can't deduct a meal with just yourself and your spouse or significant other because the IRS knows that you are closely connected. As long as you tie it into the business meeting and your business associate brings someone else along, then you can deduct the expense.

To track your cost of personal meals, you can list down how much you normally spend on food and expense the excess cost of your food over your average meal price. This also works the

same way if you split the cost of a business meal with your business partner, which is known as a Dutch-treat deduction.

There are a few exceptions where you can deduct the full cost of your expenses instead of just 50%. If you are engaging in a business promotion activity, then you can deduct the whole cost of your expenses. Home entertainment can also be deducted, sometimes more so than going out to eat at a restaurant. As long as you conduct business with the people you are entertaining, as long as it doesn't seem like a personal event, then you can deduct the cost of your food and beverages at 100%.

Deducting Your Vacation Costs

While you're on a business trip, you can deduct 100 percent of the on-the-road expenses such as the cost of lodging, laundry, and dry cleaning. You can deduct half of your food expenses while traveling as well. The only thing that you need to need to do is to stay somewhere other than your home or a place that you go to often. As long as you spend the night in a place that you rarely go to, then the trip is considered business travel.

You can also deduct the costs of your spouse or significant other by employing them for your business. He or she has to have a reason for accompanying you on

the trip, and if your partner can earn you income while on the trip or is licensed in the business, then you can deduct their expenses as well.

If your business trip takes you to a foreign destination, you can also claim that the weekends are business days if you conduct business on the Friday and Monday of the trip. Even if you aren't working, your expenses are tax-deductible. This also works on Federal holidays, allowing you to vacation and save money on taxes every year. Even the days that you travel to your destination are considered business days as long as you take a direct route and don't have too many non-business diversions.

When you take your business vehicle to go on a trip, then you're still able to deduct the cost of traveling. Up to 300 miles per day can be deducted from your taxes, so split up travel days to make use of this. All of the lodging and meal expenses can be deducted, except for the cost of taking additional people, so if you were to spend \$50 for a single room and it costs \$75 to get a double room, you can deduct the \$50 and the leftover \$25 is a non-deductible expense.

Cruises can also be tax-deductible if you attend the right ones. If you attend a cruise that is hosting a convention related to your business and more than half of the time, you're on the cruise you are spending time on business, then you

can get a deduction of up to \$2,000 a year. The cruise has to be registered as a U.S. vessel, and the port has to be in the U.S., as long as you take a log of the business activity you do each day and the number of hours you spent in business seminars. Conventions and seminars are also tax deductible if you spend at least half of your normal working hours conducting business activities, even if it doesn't happen to be on a cruise.

Chapter Nine: Filing Tax and The Essentials of the 1040 Form

As a business owner, filing tax forms rarely propels forward when compared to other fun acts you engage in during leisure. Yet tax deductions swallow up a large chunk of your income. Hence it helps to know the various corrective actions that should be taken to reduce your tax liability legitimately and how to make optimum use of the different tax filing schedules and forms.

Reducing your tax charges legally and sparing a more significant chunk of your income can be exciting!

Exploring the Essentials

The form 1040 is what individual taxpayers use to file their taxes with the U.S. internal revenue services. Hence, small; business owners who are self-employed can easily use this form when filing for taxes.

Before the enactment of the 2017 tax bill, business owners were only subjected to a few tax formula choices — in fact, three, to be precise. These included Form 1040EZ, 1040A, 1040. After a while, Form 1040A and Form 1040EZ were removed from the system, and virtually every business had to use the newly designed Form 1040. An overwhelming majority of tax filers,

particularly those using form 1040A or 1040EZ, soon became aware that they could only file Form 1040 with no schedules, and may have far fewer lines and calculations to complete.

There are no more schedules for Form 1040, with the addition of the existing schedules, that are identified by their letters — Schedules A, B, C, D, and so on. There are six schedules numbered (1 through 6) each of which include several lines that are used to form part of the original pages of Form 1040.

In 2017 and beyond, Form 1040 was commonly regarded as that tedious and complicated filing option, one that most business owners were willing to hate.

The Wall Street Journal claimed that tax professionals devised the prior form—the editors of the newspapers often refer to the tax laws as the "Accountants and Lawyers Full Employment Act."

Another element that might have caused you to finish the complex Form 1040 with different schedules back in the day was that you reported your expenses on Schedule A, "Itemized Deductions." With the Tax Cuts and Jobs Act legislation that occurred in 2018, the basic deduction rates were significantly increased.

Understanding the Lines Involved During Form 1040

Procedure

Many people believe that money or income is wages derived from 'laboring away at work.' Well, that is not always the case. The commonly used term 'Income' is quick or lengthy revenue or any other element of value that you get, whether you are working for it or not. It also covers alimony fees, additional taxes, dividends, gains on your savings, and even your lottery wins, or prizes won on a game show or the new reality television program.

Income

Here, I will be exploring those essential varieties of income that you may need to

get familiar with before filing your income tax return. While the whole concept of personal income tax returns covers a wide array of entities, I will be paying attention to those that primarily concern small business owners.

Wages and Benefits

If you haven't started your small business yet, and you are working for a company, you'll obtain a Form W-2 for Wages and Tax Statement. Your company will be mandated to send this to you before the 31st of January of the specific year your taxable income becomes due. This form lets you track the income you received throughout the year and what the business owner has omitted from your

taxable earnings.

For self-employed users, you may omit this line (line 1), but you will still have some filings to do when completing Schedule C

Tax-Exempt and Taxable Interest

Since muni-bond (municipal bond) interest wasn't subject to taxation in the past, you won't get 1099 demonstrating the tax-exempt interest you garnered. Box 8 of Form 1099-INT also details the muni-bond interest transferred to you. Box nine provides you with the part of box eight, which emerges out of the so-called private operation bonds or government bonds that continue to fund mutual private projects, like private

infrastructure or stadiums. While you might not pay tax on tax-exempt interest, such statistics are essential when sorting out the number of your Social security payments that are taxable, as well as when generating tax deductions between tax-exempted and taxable income. More than this, private activity bond interest is specified here as it is deductible under the reckoned AMT (alternative minimum tax).

Amazingly, most people that are investing a chunk of their savings in tax-exempt bonds ought not to. This is because these people are not in a strong and sufficient tax bracket to make a reasonable profit. You should move at least some of your money into deductible

bonds or securities (in which larger-term capital gains are charged at cheaper rates than normal revenue).

For taxable income, you can attach all of your interest revenue from boxes 1 and 3 from the usual Form 1099-INTs and boxes 1, 2, and 6 of any Form 1099. You can place the number on this line if the total amount of taxable interest is equal to or lower than \$1,500. If that total exceeds \$1,500, you should fill out Schedule B (or Schedule 1, when you file Form 1040A).

Both Schedule B and Schedule 1 are entirely stress-free to complete. They are almost identical, except for some questions at the base of Schedule B

regarding international accounts.

Ordinary and Qualified Dividends

Like long-term capital gains are taxed at cheaper rates, so are the dividends of companies distributed to shareholders. Line 3 is classified into a and b, where (a) specifies the number of ordinary dividends, and (b) specifies that of qualified dividends.

The first box of your Form 1099-DIV contains the sum of all the taxable dividends, regardless of their eligibility status for a lower tax rate. For varieties of 1099-DIV, you can put all figures in box 1a and put the balance of your Form 1040 on line 3a. For Schedule B, you can move the amount from lines 6 to line

3a of your Form 1040. We already know that the form 1099-DIV contains all varieties of dividends and payments from all kinds of businesses, credit unions, property investment organizations, etc.

However, these dividends may cut the most qualified dividends as the special rate of taxation of eligible dividends, while others do not. On the other hand, Box 1b of Form 1099-DIV demonstrates the portion of qualified dividend income.

You are not expected to file 1040 Schedule B or 1040A Schedule 1 if the income derived from dividends is lower than the usual benchmark of \$1,500, if

you have more than a few Form 1099-DIVs that are in your inbox, you can consider doing so.

Pensions and Annuities

Just like line 3, you have lines 4a and 4b. Here, you are expected to record your pension benefits reimbursed from your payable pension, profit-sharing, 401(k) or Keogh plans. The rate at which these plans are charged relies largely on whether funds received were paid monthly or in a lump sum.

The sums entered on lines 4a and 4b are listed on Form 1099-R you collected from your company or the custodian of your contract. If the payment received is completely deductible, you can decide to

complete line 4b while leaving the other (4a) blank. For cases where you did not pay pension or annuity with the income you have already paid tax on — or if your company did not deduct a portion of the cost from your salary when you worked— then the sum you earn each year is entirely deductible. On the other hand, when you pay a portion of the cost (i.e., when you make non-deductible donations or investments that are then added to your W-2 taxable income), you will not be taxed on the portion you paid as it is tax-free.

Social Security Benefits

Each entity receiving Social security payments requires a Form SSA-1099,

regardless of the person sharing the benefit. In other words, if the benefit received is merged in one single bill with the benefit of another, the affected will also receive a social security benefit form.

You can also receive additional Form SSA-1099 if you receive assistance from more than one Social Security record. Box 3 of Form SSA-1099 shows your gross rewards, and box 4 shows your repayments. The sum depicted in box 5 demonstrates your tax year net benefit. This sum generated in box five will be used to decide if any of the benefits earned attract taxes. Just in case you misplace any of those forms needed for filing your social security benefits,

you can easily get another one by visiting the social security website.

Nevertheless, an easy way to determine the portion payable from the benefit generated from your social security is by adding $3/2$ of your social security benefits to every other income earned. This may also include foreign and U.S. savings bonds. Generally, the social security benefits are recorded on line 5 of the form.

Adjusted Gross Income

The adjusted gross income involves deducting the generated sum on line 36 from your total income, which is depicted in line 6. The resulting figure is simply regarded as your adjusted gross

income. It can be applied when calculating various types of tax deductions. The adjusted gross income of a business owner can easily be located on line 7 of the 1040 form

Business Income or Expense

Business income and expenses are reported in Schedule C of the simplified Form 1040 for those who are self-employed. Note that declaring business expenses against income will lower your income and invariably lower payable tax. When stocks and bonds are sold, it is referred to as capital gain or loss and reported in Schedule D.

Losses made outside of a retirement account can be deducted.

For statutory employers, you are expected to record the wages paid out to your workers along with your business expenditures in the w-2 form specifically located in the schedule c. in the same manner, the adjustable business income and expenses are displayed on the 12th line of the form (1040).

Capital Gains and Losses

A business owner can earn or lose capital (known as capital gains or loss) when they gain or lose from a given investment. This includes stocks, bonds, and mutual funds. The capital gain or loss of an investor is recorded on schedule D, while line 13 of form 1040 is where you are expected to report the

results of earnings. It is also important to note that if all you have from a given investment are earnings or losses from mutual funds, you are expected to skip schedule D, while you record your capital gain distribution on the 13th line of the form.

Rentals Real Estates, Royalties, Partnerships, etc.

Well, you guessed right; this line is an important one for most self-starters that are landowners, royalties' beneficiaries, etc.

Schedule E line 17 and the supplemental income and loss is an easy way to go about this. To record the income generated through your home rental

business or royalty income, you can do this in schedule E, which comes in the form of profit and loss statement. It allows you the flexibility of calculating your net income, which is the amount you are expected to pay taxes on.

Additional (Miscellaneous) Income

Miscellaneous income like life insurance, prizes and rewards, canceled debt, and bartering are all reported on line 21 of Form 1040.

If a business owner engages in trade by barter, Form 1099-B will also be filed. Also, note that the following are also regarded as taxable income in terms of canceled debt. Not all canceled debts are taxable. For example, if a debt is

canceled as a result of insolvency or bankruptcy, it is regarded as non-taxable income.

More than that, if a business owner receives a commission or fee for non-regular business activity, it is called self-employment income. Therefore social security tax is owed on them, which are recorded on line 57 of Form 1040.

On the other hand, death benefits paid for a life insurance contract are non-taxable, whether received after death or before death as vertical settlements once the insured is terminally ill and certified to die within two years. Cash awards and prizes are taxable; for example,

prizes won in contest and lotteries. All additional income is depicted on line 21 of form 1040.

Educator Expenses

They are expenses made by teachers for items they supply to the classroom from their own money. This is deducted from their income up to the value of \$250 but limited to Teachers, Instructors, Counselors, Principals, and aides in public or private elementary or secondary schools with a minimum of 900 working hours in the school year. These expenses are recorded in line 23.

Reservists and Performing Artists Certain Business Expenses

Before any deductions are carried out here, you must go through some basic requirements of those as mentioned above.

For example, a small business owner who is an armed forces reservist may deduct travel expenses if they travel over 100 miles from home in connection with their service. Additionally, a performing artist may subtract the business expenses incurred by his employee provided that they meet a specific requirement. Not to worry, these requirements are outlined in the forms. If you meet the requirements, you can go ahead and fill in Form 2106 before noting down the amount on line 24.

Health Savings Deductions

Health Savings Accounts (HSAs) also allow tax exemption for unreimbursed medical expenses. This is similar to the Individual Retirement Account, as an investment is made on it while it is allowed to grow a tax-free income until the money is accessed for qualified medical expenses excluding medical insurance premiums. Form 8889 can be used to carry out the necessary deductions on this, which are then recorded on line 25 of your Form 1040.

Deductible Self-Employment Tax

As a business owner, you are both an employer and an employee. Hence, you owe income tax and self-employment

tax, which can be up to 15.3% of all earnings up to \$128,400.00 or 2.9% for earnings above that.

Line 27, though, provides some tax relief by allowing the business owner to deduct one half of the self-employment tax from total income.

Simple Retirement Accounts

Simple Retirement Accounts is a combination of an Individual Retirement Account/ Profit-sharing plan available to self-employed persons, which allows them to save up to 20% of net income not exceeding \$55,000.

These contributions are neither deductible nor taxable until benefits are

being received. This simple retirement account is outlined in the 28th line of your form.

If you are an employer and want to contribute to your simple retirement plan, you are to factor in those of your employees as well.

Self-Employed Health Insurance Deductions

As a business owner, you can deduct 100% of health and dental insurance premiums from income as long as it does not exceed the net profit from the business. Also, note that long-term care premiums also qualify for these deductions, but the limits are:

- \$420 for ages 40 and below;
- \$780 for ages 41 to 50;
- \$1560 for ages 51 to 60;
- \$4160 for ages 61 to 70;
- \$5200 for 71 and above

These deductions, like every other, are made and reported on line 29 of your Form 1040.

Deductible and Non-Deductible Individual Retirement Account

Putting away some substantial part of your savings for retirement is a good thing, which is exactly why the tax law has been structured to provide various

forms of benefits to business owners that save for retirement. Line 32 is used to display those traditional IRA, which is deductible in the tax year.

Non-deductible Individual Retirement Account is reported on Form 8606 attached to Form 1040. Penalty for not attaching the same is \$50, and the contributions to the Individual Retirement Account must be within the permissible amount; else, a penalty will be slammed on the uncorrected overpayment.

Foreign Tax Credit

Line 48 depicts foreign tax credits that are paid to a foreign country on income earned in that country. If a U.S. income

tax was paid on the same income, it is recognized as credit, and this produces more considerable savings. The computation of this could be complex, but with the use of computer software or a tax advisor, it could become less cumbersome. The business owner can easily attach Form 1116 to the returns for this.

Child Care Expenses

This is another form of credit specifically for expenses incurred for the upkeep of children below the age of 13 years or any age but physically or mentally handicapped so that you can run your business for income. It is worthy to note that the maximum credit for one

child is \$1,050 for a maximum qualifying expense of \$3,000 and \$2,100 for a qualifying expense of \$6,000 for two or more children. Business Owners who provide childcare for employees are also allowed a tax credit for a percentage of expenses. The tax credit includes the cost of a baby-sitter, day-care, after-school care, and summer camps.

Exemptions are after-school activities like dance, music, and sports. This is reported on line 49 of your Form.

Education Credit

This line (line 50) is used to report the American opportunity credit and the lifetime learning credit of a business

owner. A credit of \$2,500 per student annually for up to four years of college is provided under the American Opportunity Credit. This is 100% of the first \$2,000 of tuition expenses, excluding room, board, and books and 25% of the next \$2,000.

On the other hand, Lifetime Learning credit is pegged at 20% credit of \$10,000 tuition expenses excluding room, board, or books and does not have a time limit. This begins to phase out at \$56,000 to \$66 000 for single taxpayers and \$112,000 and \$132,000, respectively, for married taxpayers and courses that acquire or improve job skills only qualify.

It is worthy to note that these two credits cannot apply to the same student at the same time.

Chapter Ten: Revenue and Deductions

The taxes your small business will need to pay or remit to the government are determined by its revenues and tax-deductible expenses (deductions). That's why part of being able to manage your business's taxes well is the ability to record revenue and expenses properly in the books. We'll take a look at how to record revenues and expenses for correct filing of taxes properly.

Determining Business Income and Deductions

Determining how much income tax your

business will need to pay requires that you're able to compute your business income correctly.

This needs two inputs: Revenues or your business's gross receipts/sales and operating expenses. For taxation purposes, all income that your small business earns or receives from its normal business activities must be reported in its tax returns. To be considered as business-related, the payment must be one that wouldn't be received if there were no business transaction with another party, i.e., a customer. To arrive at your business's taxable income, you'll have to subtract business-related expenses from your revenues or gross receipts.

Gross income is the amount left from your gross sales or receipts after deducting the cost of goods sold if your business is one that keeps or maintains inventories. Miscellaneous income refers to just about any other income earned or received apart from activities that may be considered as part of your business's normal operating activities. For example, if you're in the business of selling clothes and you sold an old computer to dispose of it, the income from that sale is considered miscellaneous because you're not in the business of selling computers but clothes.

For expenses, you can't just charge expenses and expect it to reduce your

business's taxable income. Generally speaking, tax-deductible expenses need to be business-related. Going back to the earlier example of running a small business that sells clothes, the rental on your storage space is a legitimate business-related expense that you can deduct from your gross income to arrive at your taxable income for the period. If your business bought a drone that you gave as a gift to your son, that's not a tax-deductible expense, which means your business's taxable income will be higher than its reported net income for the period. Here are the most common expenses that most small businesses in the United States claim as tax deductions:

Salaries and Wages

If your business employs or will employ people, this is a fully deductible business expense. However, you'll need to keep in mind that any payments to you as a business owner – sole proprietor, a partner, or an LLC member – are not to be considered as wages or salaries because you're not an employee or contractual worker. Such payments are, therefore, not tax-deductible.

Contractual Labor

A lot of small businesses ask for the help of the services of independent contractors to meet various labor-related needs, especially if such needs aren't regular parts of their operations. The

good news is that the cost of such labor can be fully deducted to your business's taxable income. If you pay any contractor at least \$600, then you'll need to issue Form 1099-MISC to that contractor. If you paid that contractor via electronic payments like credit cards or online payment platforms such as PayPal, the credit card company, or online payment company may issue Form 1099-K to your contractors.

But if you want to be sure to avoid any potential issues with the IRS in case those payment processors don't issue Form 1099-K to your contractors, issue or submit your own 1099-MISC just the same. It is better to be safe than sorry.

Employee Benefits Educational assistance, adoption assistance, health plans, life insurance, and other benefits that you give to your small business' employees are normally valid as full tax deductions.

Inventory

If your business is a manufacturing or trading (buying and selling) one, you can deduct the cost of your inventory for purposes of filing income taxes. There are two ways you can do this: the accrual method and the cash method. Under the accrual method of inventory costing, which is the most common way it's done, the cost of the inventories purchased isn't immediately deducted as

business expenses. Instead, they are recorded as cost of goods sold when such inventories are sold. No sale, no cost of goods sold recorded, and no deductions. Under the cash method of inventory costing, which a lot of entrepreneurs aren't aware of, the cost of inventories purchased is currently or immediately deductible as expenses. This is done, under a special IRS rule, by treating inventories as supplies and materials instead.

Not all businesses can do this, though. Only certain types of small businesses – mostly service providing ones – that keep inventory is allowed by the IRS to use this method. Assuming your small business is one of those that are eligible

for the cash method and you want to shift to such, you'll have to file for a change in accounting method with the IRS first, using Form 3115.

Vehicle-Related Expenses

Many small businesses use a vehicle or two in the regular course of operations, such as a van, light truck, or a car. If you're one of them, then you can use the expenses related to operating and maintaining such as tax deductions for your small business income. There are two ways of doing this: actual expenses or using the IRS' standard mileage rate. If you plan to use actual expenses, you must keep records to back up your claims of such expenses. That is all

records pertaining to your business vehicles such as official receipts and invoices for oil changes, gasoline purchases, repairs, etc.

The IRS standard mileage rate, which as of 2017 is 53.5 cents for every business-related mile driven, is determined annually by the IRS taking into consideration among several expenses, the costs of gasoline and repair. The significant drop in oil prices the previous year (2016) has to lead to a lower standard mileage rate for 2017. This rate applies to pickup trucks, panel vans, ordinary vans, and cars. To use the standard mileage rate, you will need to keep track of the actual business-related miles driven on your small business's

vehicles. Take note, those miles must be for official business only and shouldn't include your side trips to pick up your kids from school or bring your folks to the airport. So which of the two should you choose to report tax deductions? Well, the one that will allow you to claim the biggest amount of deduction on your business's taxable income! But how I wish it were that simple. You will need to consider several factors;

First is actual mileage. If your business vehicle's mileage is rather low, then you may get a much lower tax deduction on this particular type of expense if you use the IRS' standard mileage rate. In that case, it may be better to use actual expenses. But if your vehicle racks up a

lot of miles on official business, the standard mileage rate may work better for you.

The second thing you'll need to factor in is your vehicle itself. If your business's vehicle is a very fuel-efficient one, then using the standard mileage rate may save you more money and taxes via a larger allowable deduction than your actual expense. But if the vehicle is a gas-guzzler, you're better off with reporting actual expenses.

The last factor to consider, though this is more convenient related than tax-related, is the amount of effort needed for record-keeping. With actual expenses, you will need to keep all records on all

expenses related to the vehicle's maintenance, repair, and operation. From simply gassing up to changing the oil and sparkplugs, you will need to keep every receipt or invoice as our basis for the number of tax-deductible expenses you'll report. If you use the standard mileage rate, all you'll need to keep track of are the dates, times, and miles driven on business-related trips. The best way to go about this – for purposes of maximizing potential tax deductions – is to go the extra mile in the first year by keeping tabs on all expenses related to your vehicle as well as mileage.

At the end of the year, compare the number of tax-deductible expenses from

actual expenses incurred and using that year's IRS published standard mileage rate on the vehicle's actual mileage. That should give you an idea or estimate on which method may work better for you in terms of maximizing tax deductions in the years moving forward.

Rental Expenses on Business Property

Your small business's cost of renting office space, factory, warehouse, store space, and other such facilities are 100% tax-deductible. Just be sure to keep records or documents proving the amounts you'll report.

Home Office

If you operate your small business from home, as many new generation entrepreneurs are currently doing, you can report some of your personal home expenses as business-related ones to use them as legit tax deductions. These expenses include direct ones, such as renovating one of the rooms to be used as your business's office, and indirect ones such as the portion of your home's electricity bills that can be attributed to your business operations. To get an idea of how much of your home expenses can be deducted for your small business's taxes, get the percentage of your home's floor area. You can do this by measuring how much floor area of your home is occupied by your small business and

divide it by your home's total floor area. This will give you the fraction or percentage of home-related expenses that can be reasonably charged to your business. If your computed percentage is 30% and your monthly rent for the house is \$5,000, then 30% of \$5,000 – or \$1,500 – is the amount of rental expense you can charge to your home-based small business for purposes of tax deductions. The same holds true for electricity and other utility expenses. And speaking of utility expenses...

Utilities

All utility expenses are fully deductible, except for your landline subscription if yours is a home-based office. If your

home only has one landline, the cost isn't deductible – even partially. But if you have a second line, the cost of that second landline is one that your business can claim for tax deduction purposes.

Depreciation

These are expenses related to buying certain properties (real estate and non-real estate) for your small business.

Supplies - Any consumable items that your small business uses during the course of its operations, such as bond papers for printing invoices and the like, are 100% tax-deductible.

Taxes State and local sales taxes aren't deductible because they're not part of

your business's reported gross sales or receipts. You're merely collecting it from your customers on behalf of the government. As such, they aren't related to your business revenues or expenses. Licenses, regulatory fees, and specific property taxes are tax-deductible expenses. Employment taxes, which we tackled earlier, are tax-deductible expenses. But if you're a self-employed business owner, half of your deductions for self-employment tax aren't considered a business deduction, but an adjustment on your personal income tax return's reported gross income.

Repairs - Ordinary maintenance and repair expenses such as replacement of a broken door and changing of light bulbs

are 100% tax-deductible. But costs related to things that can increase your business's property's value, such as renovating certain rooms or replacing floor tiles with more beautiful ones, aren't. They're generally capitalized and expensed via depreciation over their expected useful life.

Cost of Insurance

You can fully deduct the cost of your business's malpractice coverage (where applicable), business owner's policy, fire insurance, vehicle insurance, and business continuation insurance, among others. But when it comes to health-related insurance, you'll need to keep two things in mind. First, your small

business may be qualified for tax credits of up to 50% of premiums paid, which can be a much better tax benefit than a mere deduction. Secondly, your business can't claim such premiums as deductions if you're a self-employed entrepreneur and if you hold more than 2% share in an S corporation. Instead, such deductions can be claimed on your personal tax return.

Commissions

Any commissions you pay out in relation to your business's sales are 100% tax-deductible. Advertising - costs of promoting or advertising your business via ordinary means are 100% tax-deductible.

Travel - For any extraordinary business-related travel expenses you or your employees may incur during the regular course of business, these may qualify, such as airfare, and board and lodging may be fully claimed as tax deductions. The costs related to commuting locally, e.g., within the city, are normally not allowed as tax deductions. For claiming travel-related deductions, check out the IRS requirements for such claims in IRS Publication 463 for more details.

Legal and Professional Fees - All expenses related to engaging services of professionals – such as lawyers and accountants – and legal matters – such as filing of cases with the courts – are 100% tax-deductible.

Machinery and Equipment Rental Expenses These are 100% tax-deductible.

Interest on Loans And Other Borrowed Money

Interest expenses on normal, business-related loans that your small business takes advantage of, such as a commercial line of credit with a local bank for financing inventory purchases are 100% tax-deductible as a regular business expense. It's a different case for loans taken on by you as the owner, in which case, you'll need to differentiate between your investment interest or passive activity interest.

If your small business happens to be an S corporation and you borrowed money to purchase your shares in the business, you will need to allocate the proceeds from your loan to the assets of the business. If those assets in which you allocated your borrowed money are all used by the business, then the interest you'll pay on loan is considered tax-deductible.

If some of the assets in which your loan proceeds were allocated to are investments, then part of the interest you'll pay for the borrowed money is considered investment interest, which is also tax-deductible. But if some portions of your loan proceeds were allocated to passive investments, then that's

considered as passive activity interest, which isn't tax-deductible. If your small business owns real property that's financed through a real estate mortgage, interest payments on said mortgages can be fully deducted for tax purposes.

Computer Programs

It's hard to imagine any business today that doesn't, in one way or another, use computers in its operations, which require the use of the software. Whether boxed, downloaded, or subscribed, the costs of acquiring or availing of computer programs or software are fully deductible.

Contributions to Charitable Institutions Or Foundations

Contributions of at least \$250 qualify for claiming as tax deductions. However, your business needs to secure a written acknowledgment from the organization to which it donated to verify its donations. If your business donated property or other non-monetary items, consult IRS' Publication 561 to determine the value of donated property to find out the number of deductions your business can avail of.

Capital or Starting Up Expenses

When you first set up your business, before you formally started operations, you already incurred expenses. These may include hiring a professional to conduct a feasibility study for your

planned business or hiring a real estate professional to appraise a certain property you're considering for setting up your office, among others. The good news is that such expenses may allow you to take advantage of tax deductions during your business's first year of actual operations. You can claim up to a maximum of \$5,000 in start-up costs incurred prior to starting operations during its first year of operations. If you spent more than that up to a maximum of \$50,000, you could amortize the cost over 15 years.

Entertainment

The money spent on taking a prospective or existing client to a restaurant to seal

the deal or explore the possibility of doing more business is tax-deductible but only up to 50% of the cost. Eating out with your employees isn't. Keep that in mind if you want to maximize your tax deductions. Expenses related to taking your clients to a show or a round of drinks can also be 50% deductible. However, this has to be in a business setting or must be immediately before or after a business meeting with them.

Written Off Receivables

It's unavoidable that sometimes, customers who took advantage of your business's services or bought its products on credit aren't able to pay. There'll come a time when you'll need to

write them off as a loss. You can claim the amount of past-due receivables your business writes off as tax deductions. There's a condition for this, though: the number of receivables written off must have been included in the previous years' gross income as revenue. If not, they aren't tax-deductible.

Chapter Eleven: Record Keeping and Good Standing

As a small business owner, proper record-keeping is a crucial practice. You will need to keep good records for tax purposes. Proper tax record-keeping will make your tax filings as painless as possible, save you money, and help greatly if your business is audited.

Choose good accounting software that will allow you to keep thorough records. This will make matters easier when tax time comes. Also, when you are determining which documents to keep, err on the side of keeping them. It might be a good idea to enlist the services of a

tax professional when you are setting up your record-keeping system to ensure that the right records are being kept in the right manner.

The IRS always accepts electronic receipts and digital records. Thus, you should keep the original paper records with the accounting ledgers in which the transactions were recorded, but each original document should also be scanned and stored digitally in case of a natural disaster.

Documents to Keep

Here is a list of records you should keep and the minimum period you should keep them:

1. Bank statements (either paper or electronic form; three years)
2. Invoices (both receivable and payable; seven years)
3. Cash receipts, cash disbursements, and canceled checks (seven years)
4. Credit card receipts and electronic funds transfer (EFT) transaction records (seven years)
5. Home office expenses (e.g., utility, business phone, property tax bills, etc.; three years)
6. Business office supplies receipts (e.g., printer, ink, envelopes, etc.; three years)

7. Business-related vehicle and mileage receipts (e.g., gas, maintenance; three years)
8. Advertising and marketing expenses (three years)
9. Employee payroll tax records (seven years)
10. Tax returns, tax filings, W-2 forms, and 1099 forms (seven years)

Remember that when it comes to business taxes, the burden of proof falls on you, the small business owner. This means that you must be able to back up each item in your tax return with documented proof so that you can support that item or deduction in the case

of an IRS audit. This is why all the documents above must be kept in good order: to provide proof.

Records that you should always keep on hand even though they may not be required for tax purposes include the following: business contracts, business permits, articles of incorporation, annual reports, and business safety, health, and regulatory documents.

Good Standing

For your business to be in "good standing" denotes that all necessary fees and reports have been properly filed with the state, which means that your entity complies with all state

requirements and filings.

If you fail to keep your business in good standing, you run the risk of being penalized, fined, and even suspended by the state. The state may even suspend your liability protection.

Certificate of Good Standing

If your business entity is in good standing with the state, it will be easy to obtain a "Certificate of Good Standing" from the state. This is a document confirming that your entity exists, is valid, and is in good standing with the state. It also authorizes the entity to conduct business transactions within the state. Because filing requirements vary from state to state, this document may

also be known as a "Certificate of Status" or a "Certificate of Existence."

A Certificate of Good Standing for your business is often required by financial institutions before they will agree to lend you money. It is also a frequent requirement of doing business in another state.

How to Maintain Good Standing

To keep your business entity in good standing, be sure to do the following:

1. File annual reports promptly. Missing deadlines for filing annual reports will cause your business to lose its good

standing.

2. Pay any necessary fees or franchise taxes promptly. Some states require fees or franchise taxes. Make sure to pay these on time as well.

3. Maintain a registered office or a registered agent with up to date information. Your business name, business address, owner name, and registered agent name should all be kept up to date. If information regarding the registered agent is not up to date, official correspondence may not reach you, and your business might be suspended. To avoid this, you can name as your registered agent, a third-party company that offers a registered agent service

when you file to form your business.

4. Maintain good financial and business records (a practice called "observing corporate formalities"). The business records you ought to maintain will depend on the state and the type of business entity you form. Always keep financial records for your business separate from your personal financial records.

Keep your business compliant by filing annual reports on time, paying taxes and fees on time, keeping registered agent or registered office information up to date, and keeping proper records. This will maintain your business in good standing and allow you to obtain a Certificate of

Good Standing whenever you need one. Losing good standing will result in penalties and fines being assessed by the state, the loss of limited liability protection, and even the suspension or dissolution of your business, so please take care of keeping your business in good standing.

Chapter Twelve: Difference between Tax Credit and Tax Deduction

Tax Credits

Tax credits are referred to as permissions, which reduce your tax liability dollar-for-dollar. Tax credits are considered incentives from the government since the general public benefits by being able to retain more of their income by using their credits. Further, the government can push a large part of its agenda by giving the citizens incentives through the lowering of the financial burden of said activities. For example, many people have gone back to

school since they are assured that they will get tax benefits by having a percentage of the money used refunded in the form of tax credits.

Unlike tax deductions, which reduce the overall amount of taxable income, tax credits work by directly reducing the tax amount. Therefore, assuming that you were obligated to remit a total tax amount of \$1000 and you have a tax credit of \$200, you will remit the difference, which is \$800.

One of the things that you must realize about tax credits is that they are offered as a percentage of particular expenses and that there is a maximum amount offered at that. Also, credits are not

available to all persons, and most high-income earning people are excluded from most of the benefits. For instance, there are two common credits available to cater to higher education expenses, which are only given to low and medium-earning people, and high-earning persons are totally excluded from the same.

Classification of Tax Credits

Tax credits can be classified into three major categories: refundable, partially refundable, and non-refundable credits.

Refundable tax credits can be paid out even if the liability of the taxpayer is below zero. Amongst the most popular refundable tax credit is the earned

income tax credit, which essentially means that the taxpayer will be entitled to receive the full amount regardless of the liability status of their tax. Assuming that a taxpayer has a tax liability of \$500 and is entitled to a total tax credit amount of \$2000, the resulting \$1500 will be added to the refund.

Non-refundable tax credits, on the other hand, are limited and are only usable to the extent of the tax liability. A good example is the federal income tax credit. Assuming that a taxpayer is entitled to pay \$500 as tax and is entitled to a tax credit of \$2000, the credit will cover the overall tax amount, and the remaining total amount of \$1500 is not used.

Partially refundable tax credits are known for their ability to reduce tax liability while reducing the total taxable income. For these types of tax credits, when the overall tax liability is reduced to \$0, you can get a refund for a percentage of the remaining amount. There is, however, a cap on the maximum amount receivable for the remaining tax credit balance. For example, most companies put the cap at \$1000, and the rest of the extra money is refunded back to the institutions.

Popular Tax Credits

Several tax credits are well renowned, and I believe that you must have heard of some of them. Some of these tax credits

include:

Child Tax Credit

This credit is valued up to \$2000 per child under 18 and \$500 for every dependent who is not a child. In most cases, the child tax credit is not given to taxpayers who earn a high income.

Earned Income Tax Credit (EITC)

This credit method is designed for people with low or moderate incomes. The amounts given differ year by year, and they are subject to factors such as inflation and the economic position of the state. In the year ended 2018, the credits issued were between \$519 and \$6431. Usually, the major determinant of

the amount that you will receive includes the number of dependents that you have, marital status, as well as the overall taxable income that you make. People with lower wages and many dependents tend to benefit more, and the government can ensure that the standards of living of such people are improved. This tax credit is not available for high-income earners.

The American Opportunity Tax Credit

This credit option is usually worth around \$2500 per student, and its main role is the catering of tuition, books, equipment, and other school supplies. To qualify for the credit, the student must prove that they are in school and that

they have been enrolled for at least half the year-long period.

Lifetime Learning Credit

This credit is not limited to the type of studies that a person is pursuing, and it can be used for undergraduate, graduate, and postgraduate education courses. You also qualify to receive the credits if you are involved in any professional course. One of the main reasons the government popularizes this credit is that they wish to ensure that people are motivated to study since they know that the amount spent will return in the form of this credit. Usually, the credit amount is up to \$2000, and people continue to express how this credit has helped them advance

in their careers.

Adoption Credit

This is perhaps one of the most beneficial credits in the world today as it helps cover the costs associated with adoption cases. As you know, adoption is one of the noblest practices that a person can willingly undertake. Most people are unwilling or unable to go through with the process due to the hefty amount of money that they have to spend, thus putting a halt to any kid's desire to have a loving home. Through the adoption credit, individuals can afford the adoption process. Ultimately, more people have been able to go through the adoption process without the fear of all

the costs that would have been associated.

Residential Energy Tax Credit

The government is currently at the forefront of trying to teach its people about climate change and the impending problem that is imminent if nothing is done. Many people take the concern seriously if the increasing number of people with alternative sources of energy is anything to go by. While this alternative source is beneficial in the long run, the fact remains that it is not cheap. The high cost is the reason why most people still stick to traditional energy sources. To help offset this problem, the residential energy tax

credit helps in the payment of costs up to 30% of the installation cost. This is undoubtedly motivation, and more people are up for the idea.

Tax Deductions

This is different from a tax credit because it cuts down on the income incurring tax liability. The tax filers can claim the standard deduction in their taxes or itemize deductible expenses from a list of state and local taxes, mortgage interest, charitable donations, and more. As a result, tax filers can significantly decrease their taxable income as per the allowed margin of deduction within bounds prescribed by the IRS.

Tax filers often claim additional tax deductions in their income. These additions are without the standard deductions they are already receiving. These additional deductions often termed as adjustments to income, are also referred to as deductions above the line. Why? This is because they go above the line that states the adjusted gross income on the taxpayer's form 1040. These adjustments could come in the form of contributions to retirement accounts, education expenses, or interest on student loans.

The major drawback of tax deductions is that the adjustments can only be made depending on the taxpayer's tax liability and with respect to the marginal tax rate.

A tax deduction cannot reduce the income of the taxpayer below \$0. So once a taxpayer has reached this limit, the excessive deductions will be lost. However, unlike tax credits, unused tax deductions can be carried into the future years.

By making reductions in taxable income, a tax deduction will lower the tax liability of a business or an individual. As a result, tax deductions usually come well into play for people with a higher tax bracket. They can make a large reduction in taxable income, reducing the amount of tax due at a large rate. As an example, you can see that a deduction of \$10,000 in income will reduce the taxes by \$1,200 for people who are in

the 12 percent tax bracket. However, if the tax bracket is higher, say 32 percent, the tax deduction will be \$3,200.

The alternative minimum tax, also referred to as the AMT, does not allow the standard deduction and some itemized deductions. This means that an AMT taxpayer may not be able to deduct their state and local tax payments. The AMT, however, does reduce – but does not eliminate – certain other deductions.

Chapter Thirteen: How to Legally Reduce Your Taxes

Most small business owners only want to keep their business accounts on what can be considered as a cash basis. That option does not mean that all corporate clients pay directly in cash for all goods and services purchased from the business, or that the business owners pay with cash for all expenditures. Cash-basis management and accounting can be used for taxation purposes. Using this, a business owner can identify and record revenue during the year it was earned and expenditures during the year it was paid.

When operating using a cash basis, you can have greater dominance on the amount of gain that your company records for taxation purposes on an annual basis. If your revenue varies significantly during this period, you can lower your tax obligation by making a legal change in the income generated and expenses incurred.

For instance, if you recently launched a business and you have low, but rapidly expanding income with steep start-up business costs, getting closer to the proceeding tax year, you can already guess that you're going to generate extra income, and you're likely to be in a high-income tax bracket.

Thus, you can easily reduce your taxes by paying for a large portion of your expenditures in the coming year. This does not mean that you will leave your product suppliers hanging specifically if you are running a retail business. An easy way to do this is to pay some bills at the beginning of another tax year rather than in the last month of the previous year. In other words, if your business tax year follows the regular basis of January to December of a given calendar year, you can reduce your tax by paying for the expenses incurred from the previous year on the 1st of January rather than on the 31st of December of the prior year. Note: The information depicted on the credit card shows the

date you incurred the cost and not the day you paid the bill.

In the same way, you can easily exert the same authority if the transaction is to be carried out by your client. Unless you hope to earn a lower income in the preceding year, do not invoice your customers in the last month of the current year. I recommend waiting until the preceding year (January) to get more of your earnings next year.

Whichever way, be extremely cautious when playing this game, to avoid running out of cash flow while delaying a paycheck! Likewise, if the consumer sends you a check in December, the IRS law does not require you to keep those

checks until January or report the revenue at a later date. In relation to taxation purposes, you must consider the reimbursement as income when collected.

Other Simple Ways to Reduce your Taxes

Build your Portfolio with Some Wealth-Building Assets

I'm quite sure that you certainly don't need or want taxable income out of your savings through your earning years since it can dramatically raise your tax burden. Investment options like bonds, real estate, as well as some small business assets, provide the best growth

opportunities. Regardless, bear in mind that some of these assets can witness downturns in the near future.

Some of the profit gained from these income-building holdings stems from their appreciation or growth over time, making them tax-friendly; more so, since you are entirely in charge, you can dictate when to sell them off and make some returns.

Key-Into the Benefits of a Health Savings Account

Money paid to a Health savings account is tax-deductible, so investment returns are tax-free and are not taxed on any withdrawals provided you utilize the money to pay for authorized healthcare

fees. Therefore, when compared to a retirement fund, health savings accounts are, in fact, tax-free doubles! In other words, you can easily reduce your taxable income with an HSA rather than with a retirement fund. Generally speaking, the number of qualifying expenditures is quite large. Nevertheless, you must have some high-deductible healthcare plans to apply for an HSA.

Playing Around with Your Business Expenses

If you are self-employed, the chances are that you are already deducting several costs from your income before determining the tax amount you owe. You

will exclude those expenditures whenever you purchase a machine or office equipment. Playing around with these business expenses is an easy way to reduce your expenses. Ensure you leave no stone unturned. Your worker's wages, office equipment, rental, or mortgage payments on your office buildings, and telephone costs should be deducted as well.

While most business owners are often cutting corners during tax deductions, most self-employed businesses are not taking all the exemptions they ought to. In most cases, a wide variety of businesses are not conscientious about the wonderful world of tax deductions through expenses.

For many other business owners, substantial reductions can increase an audit's alarm. The best way to go about this is to be transparent in all processes. But hey! Take advantage of tax reductions or deductions you are entitled to; this can go a long way toward saving you from additional tax expenses.

Chapter Fourteen: Costly Tax-Related Mistakes

Although some aspects of the tax system are dreadfully and unnecessarily complex, no law says you can't benefit from the pitfalls of others. This can save you from unnecessary expenses in the future, and with this objective in mind, this section outlines familiar tax goof-ups made by small business owners when it relates to making business decisions, tax deductions, and managing income.

Many of these are costly tax-related mistakes that you have to watch out for, not just for optimal tax management but

also to manage your business finances in the best way. Many of these are quite subtle, and here lies the danger – the costly danger.

Trusting Your Bookkeeper Too Much

I'm not saying it's a mistake to trust your bookkeeper – of course, it isn't! However, there's such a thing as too much of a good thing can become bad. And when it comes to your bookkeeper, that holds true.

To this extent, you shouldn't trust your bookkeeper with cash-handling functions. If you give your bookkeeper the ability and authority to disburse cash and record transactions in the books, you're practically giving him or her the

license to embezzle funds from your business, including money that's supposed to be paid to the government for taxes. More than just under filing your business's taxes, which is in and by itself already a costly mistake, you also run the risk of bleeding your business dry to the point of paying no more taxes, i.e., closed down.

Make sure that your bookkeeper's function is limited to keeping his or her hands on the business's accounting books – no more and no less. Assign a person with no access to the business's books to handle cash-related functions to prevent theft and embezzlement.

Looking for Quick Help After a

Significant Business Decision

Many people seek information and hire help after making a decision, even though it is usually smarter financial-wise to seek the advice of a qualified professional regarding a business decision; it is more efficient to seek proactive help ahead of time.

Educate yourself before making that big business and financial decisions for your small business. The good thing is that you are already a step ahead, as this book can help give more reasonable insights regarding any questions you may have.

Using Your Financial and Tax Consultants the Wrong Way

Sometimes relying on your knowledge and that of IRS publications for tax-related issues is not to be recommended, specifically for business owners with tax trouble.

Most people find the IRS guidelines boring and, in fact, far from the main deal, which is to reduce their tax fees. Some parts of this book can guide you through the process. If the uncertainty of your small business and tax decisions begins to overwhelm you, you can seek the help of your tax and financial consultants.

Assessing and evaluating your skill as a small business owner can go a long way as well. You can decide to appraise your

accountability and operational expertise. This will help to detect when and when not to bring in a tax or a financial consultant.

Remember that when you face multiple tax long term issues, using a tax professional will be worthwhile. If your tax condition remains difficult or if you know you'd be doing an even worse job on your own, use a tax professional instead. Try recruiting and paying a professional to sort out your taxes once if your condition is unchanging or not that difficult. You can go ahead and try to complete your tax returns yourself after that.

Failure to Submit the Required Taxes

You need to provide projected periodic tax obligations when expected, whether you are self-employed, or you receive a substantial amount of taxable income from investments beyond retirement accounts. As a business owner, you must also deduct taxes for your workers and submit these taxes to the relevant tax authorities. Many owners of smallholdings or companies do not have a department whose particular duties are to deduct taxes; hence, they drive themselves into a persistent tax trap by refusing to make calculated periodic tax payments. Well, it's not a crime yet, you can plan that tax payment and save yourself from unnecessary penalties in the future.

Not Maintaining A Tax Organizer

It will be in your best interest to maintain a tax organizer – and an accurate one at that. Why? It's because a tax organizer can help you make your tax records pretty much invincible to IRS scrutiny. They do this by providing you with all the possible questions that the IRS may require you to answer concerning specific types of expenses that you deduct from your taxable income, such as entertainment, travel, and others like it. Further, having a tax organizer enables you to shift the burden of proof to the IRS auditors who may be tasked to audit your business, should that happen. Not maintaining a tax organizer is a costly mistake as it increases the

chances of the IRS auditors finding "loopholes" in your tax declarations, which can subject you to certain costly penalties or sanctions.

Too Much Tax Buffer

Often, people are ecstatic when they or their businesses receive a large amount as a tax refund, which is the result of setting aside too much money for withholding taxes. Better to overpay than underpay taxes, right? Right and wrong!

That's right because certainly, anything other than underpayment of taxes is the better option. Wrong because just because it's better than under-declaring and paying your taxes doesn't mean it's the best thing to do. Regularly paying too

much in taxes – as indicated by regularly receiving large tax refunds – means you're giving the government free money for a significant amount of time. It's free because you don't get paid interest for lending the excess money to the government.

The best thing to do is prepare your taxes well to the point that refunds – if any – are minimal. You're better off using the excess money for more productive uses like investments or increasing inventory in anticipation of bigger sales.

Hiring A Tax Professional When You Can Do It Yourself

Hiring a tax professional will cost you

money. There are instances when doing your business taxes yourself is ideal because it can save you good money in the long run – money that you can use to grow your business instead. But if you hire someone to do something that you can easily do well yourself for your own business, this will lead to unnecessary expenses.

Doing Your Business Taxes Yourself

While hiring a tax professional can be costly, it can save you more money in the long run by ensuring you're able to report and pay the right amount of taxes on your business's operations regularly and on time. If you choose to do it yourself and you're not equipped enough

for the task, you'll eventually spend more money on penalties and charges when the IRS finds that you understated or paid your business's taxes late.

Chapter Fifteen: Using QuickBooks For Accounting and Bookkeeping

Starting a business or taking over an older business that may not be up on its technology will require you to understand the various tools you can use to help you successfully run your company. QuickBooks is one way you can perform bookkeeping and accounting duties when running a business.

What is QuickBooks?

QuickBooks is business software for the financial responsibilities your company has. You can do bookkeeping and

account with QuickBooks software. Some businesses use the software only for paying their employees, while others use the full repertoire available.

QuickBooks is designed mostly for the small business retailer, contractor, manufacturer, or distributor. It is also helpful for attorneys, non-profits, and CPAs. The businesses that get the most use out of QuickBooks have under 50 employees, with less than \$20 million in revenue.

Difference between Bookkeeping and Accounting

Bookkeeping is the recording of

financial transactions. A bookkeeper is a person who enters the data, maintains the current information, creates reports if necessary, but overall makes sure everything is recorded. Accounting is where the interpretation, classification, analysis, reporting, and summation of financial data occurs. Accountants take the records created by the bookkeeper to create cash flow, taxes, employee paychecks, and help show the financial health of the company through the analysis of the reports.

For a business to succeed, bookkeeping and accounting must be done. How you set this up will determine the amount paid out for services versus what you keep in-house. The size of your company

also weighs in on the choice you make to have an accountant prepare documents or whether you prepare everything yourself. You are never going to be an accountant doing your taxes as a business, even if you have QuickBooks, but you can create as much data and reports as possible and handle small accounting concepts, without paying a large sum to an accountant.

Many small businesses have an accountant to do the taxes and create the W-2 forms for employee tax season. Otherwise, the owners take care of making payments, creating reports, interpreting the data for the next year's projections, and other financial requirements.

Accountants work on an hourly basis, much charging over \$100 per hour for their services. Imagine if you have an accountant who creates the paychecks on a bi-monthly timeframe, pays the sales tax, and employee taxes. Let's say it takes an hour for each task, so you pay out \$400 per month. What if you could save that money and only pay out \$100 each month?

Why is Accounting Software Essential?

Accounting software is essential for a multitude of reasons, the least of which is ensuring your company has proper accounting records for tax season. Accounting software can streamline your

financial process to ensure you are tracking the success of your business, paying companies and employees on time, and providing a clear picture of your business's financial health. It is possible not to have an accounting software in-house if you have hired an accountant. However, you can save yourself a lot of time and expense by having accounting software at the company to record everything.

The Benefits of Accounting Software

Accuracy – You can reduce human error in calculations.

Speed – Using software helps you

become faster at the financial data you require.

Cost – The software is often less expensive than hiring an accountant to do much of your financial work. Remember the example of \$100 versus \$400 per month?

Reports – Nearly all cash flow reports you might need, including what vendors have not been paid or accounts have not paid, can be tracked.

Tax – Taxes not only for employees but also for your business can be calculated using the software. You can use the software to complete your income taxes with less spent on an accountant.

Excel Spreadsheet vs. Accounting Software

Old-school methods from when computers were just starting to be used, including using an Excel spreadsheet to generate reports, keep track of employee payments, and more. While it might work when you have a couple of employees, a few vendors, or just sell services, it is much easier to use accounting software. Excel spreadsheets require you to lock certain columns, understand how Excel works, and create your own formulas.

For example, you would need to keep a ledger of incoming and outgoing funds.

You would also need:

A template for employee hours, taxes, net, and gross earnings to calculate your tax liability and create paychecks.

A template for vendors.

A vendor file with address returns information and contact information.

The list can go on. You would need to manually create all these things, save them in proper folders, and find them again when you need to work with the Excel sheets you created. It takes time. It takes effort. It is more work than using accounting software that keeps everything tidy.

Accounting software, like QuickBooks,

does everything for you without the time and thought process spent on creating what you need.

As you buy a business or start a company, you need to ask yourself if you want to work smarter or harder. Tools that take less time to perform necessary actions ensure you are working smarter. With QuickBooks, you have more time to work on bringing money in than bookkeeping and accounting concepts.

Why Do Businesses Use QuickBooks?

QuickBooks is not the only accounting and bookkeeping software on the market. However, small businesses have

discovered it has numerous benefits beyond other software options. It is designed for small companies that often do not have the funds to hire a bookkeeper and accountant. QuickBooks is also easier to learn and integrate into a business rather than other software programs out there. While this last fact is an opinion, having used Quicken and QuickBooks, there are simple features in QuickBooks that are more complicated in Quicken. How the program works, how easy it monitors cash flow, customer support from QuickBooks, and the training provided by the company all make QuickBooks worth using.

How It Works

QuickBooks allows you to perform business tasks relating to bookkeeping and accounting. Some of the tasks you need to do occur daily, while others are less frequent. The program takes the information you provide regarding revenue and expenses, allocates information to certain customers and vendors while keeping track of the bills that are outgoing and in-coming. From the information supplied, QuickBooks maintains your bank account balances to show you how much money you have in the bank, and what needs to be spent. You can also draft reports to overview the financial health of your company. The following information breaks down the three parts to help your

understanding of how QuickBooks works for businesses.

You can break QuickBooks into three parts:

- Daily Tasks
- Occasional Tasks
- Housekeeping Procedures

Daily Tasks

Daily tasks are the everyday items you take care of for bookkeeping.

- Creating Invoices
- Creating Credit Memos
- Payments

- Paying Bills
- Inventory
- Checkbook Details
- Paying Electronically

Each business needs to create invoices. Invoices are sent out to those with accounts, such as a library picking up books on account, at a bookstore, and then paying their bills.

Businesses also send out credit memos when an overpayment or issue has occurred.

For payments, you typically send out invoices, but sometimes you need to keep on top of the company to ensure

you get paid. You can also use QuickBooks as a Point of Sale system depending on your company's goods and services. You can use it to take payments for services or goods.

QuickBooks keeps track of the bills you pay and the bills that are becoming due. When you get an invoice or packing slip from a company for goods you bring in, QuickBooks can keep track of the payment terms and alert you to a payment needing to be made, as well as keep track of your check register of the payments you have made.

Furthermore, if you have a company where you make payments online for goods or services, you can use

QuickBooks to send payments or even to take payments using electronic means or credit cards.

Occasional Tasks

On occasion, your business will have things that need to be done, like printing checks. You probably don't send out payments each day, so these tasks are more about weekly or monthly options.

- Printing Checks
- Payroll
- Creating the Budget

Printing checks is often a thing you will do once a week, and then twice monthly for payroll. Creating a budget is also

something you do once a quarter and yearly, which means you need to know that you can use QuickBooks for these tasks and how it works.

Housekeeping

These are chores you occasionally do, most often for accounting needs and business health.

- Balancing the check register
- Reporting, such as sales tax and other taxes
- Job Estimating, Billing, and Tracking
- File Management
- Fixed Assets and Vehicle Lists

When you get your bank statement, you reconcile your check register with the information on the bank statement. You also have sales tax and other taxes to pay or report about monthly.

QuickBooks is available to help you estimate job expenses, employment needs, billing, and tracking of those jobs.

As with any business, you need hard copies of the files and a way to manage the different vendors, suppliers, customers, and sales. These are housekeeping concepts when it comes to making sure your files are up-to-date.

Fixed asset and vehicle list maintenance is something you do when a new asset is

purchased, an old one is sold or disposed of, and when you add new vehicles or trade out old ones. Your company needs a list of the assets; particularly, for the valuation and depreciation of them.

These are just a few of the topics that help you understand how QuickBooks works to provide you with the information you need to perform daily, monthly, and housekeeping business tasks.

Cash Flow Monitoring

QuickBooks is also designed to help you track the cash flow you have, allowing you to print reports that show how much money is coming in and going out. You

can create reports that show where the money is going. From the cash flow monitoring reports, you also get suggestions from online support or through your accountant. These suggestions help you improve or streamline your company so you are handling the cash flow better.

Customer Support

QuickBooks is something you can learn on your own. You are reading a guide to help you with the basic information, such as how to set up payroll, but you also have Intuit support through phone and chat that helps train you for the various tasks you want to perform. Customer support is based on the level of

QuickBooks plan you buy. Simple questions can be answered without a support plan. For those who want more, such as training classes and hands-on computer help, you may want to pick a QuickBooks plan that includes more hands-on customer support.

Training Classes

Not everyone can read a book and learn everything they need to know. Sometimes it also helps to have personal training to streamline the process and cut out the details you don't need to know when it comes to QuickBooks. The training classes provided can be live, self-paced, or through personal support chats.

For customer support concepts, more details are coming with regard to the level of support based on the fee you pay for the QuickBooks program. You also have different options when it comes to training employees who may use the software to help you in the office. The idea is whether you are the owner of the company or the one doing bookkeeping/accounting tasks with QuickBooks, you can use the information here to help you.

Seven Tax Tips for Small Business Owners

The completion of the calendar year infers a huge amount of things for

autonomous organizations. It's a perfect chance to start thinking about what you have to achieve one year from now and work on your legitimate target setting process. You are doubtlessly in the midst of Christmas searching for your agents, dealers, clients, and partners. Besides, it's a perfect chance to start polishing up your books for this timetable year.

Believe it or not, right now is a perfect chance to check in with your accountant to see whether there is anything you should do to guarantee your business is going in the right direction. Two or three little changes can majorly affect your outright pay and evaluate chance for the year.

Filing and taxation in small business are mandatory for every business owner. That's why professionals are hired by companies to tackle all matters that are related to the tax and filing of their company. As all the matters are the accuracy of accounting systems, owners should also have some general knowledge and understanding regarding filing their taxes themselves, which is why it's important to work with the professionals you hire.

Here are some simple tips that will help you to deal with your business:

Review the Reports and Run the Inventory

How was your monetary year?

This valuable data is important for your objective setting process and to guarantee your books are historically correct and definite. Has your accountant or assistant run the total of the reports that are critical for your business and timetable? This is an opportunity to go through them together if you need more clarification on the numbers and unequivocal breakdowns.

If there has been a drop in advance estimation or the market estimation of your stock, you may have the choice to guarantee extra judgments or the additional ends. This relies on your bookkeeping methodology, so I promise you to check with your representative to check whether these searches are useful

for your exclusive business.

Purchases Index Fund

The index funds that track a broad index, as well as comparable ETFs, are extremely tax-efficient, and this is the general rule. Most of the actively traded funds tend to trade more than the indexed funds and therefore incur higher taxes as well. Indexing will provide higher tax efficiency than the actively traded mutual funds.

Separate Personal and Business Expenses

When auditing, always separate your personal and business expenses. If the IRS audits your business and finds out

expenses are mixed, you might be taxed wrongly. It is advisable to report both of these correctly so the IRS would look at your accounts. If you do not want them to look at the personal accounts, you should maintain two separate accounts. Ensure that you have a separate bank account and credit card for yourself and the business and run your business expenses only through these accounts.

Allocate Your Investments

Your after-tax returns might get positively influenced by how you decide to allocate your funds between both the taxable and nontaxable accounts. Funds that are capable of paying taxable distributions in the form of dividends

and also capital gains should be placed in a tax-deferred account, and the taxable bond funds should be placed in the same account. When you do this, you will be able to reinvest all the distributions and can also avoid having to recognize these distributions as part of your ordinary income.

Most of the alternative investments, as well as real estate investments, should be held in a tax-deferred account if you want to be able to defer taxes on distributions. Transactions costs tend to reduce your returns and, therefore, active trading is not a good idea. If you really want to trade actively, then you should put all such investments in the tax-deferred account so that you will be

able to buy and sell them without any tax liabilities. All the individual stocks that you wish to hold onto should be placed in an after-tax account.

The index funds and stock index exchange-traded funds can also be placed in the same account. Taxes should not be your only concern when you are trying to decide how to allocate funds to your taxable as well as nontaxable accounts. Investments that are placed in tax-deferred accounts tend to have restrictions on the withdrawals, and if you withdraw these funds before the due date, then you can incur penalties for doing so.

Invest In Retirement Accounts

401(k) or 403(b) is offered by your employer relating to retirement, and you should take full advantage of these. The funds that you decide to invest in these will be pretax, and you will be able to defer taxes unless and until you have started receiving distributions. Also, don't forget to contribute on your own to a traditional individual retirement account or a Roth IRA. Your after-tax funds will go towards your contribution to the Roth, but your withdrawals from this will be all free from tax.

Harvest All Your Tax Losses

Let's be frank, and no one will be happy when their investment goes down in its value. Tax-loss harvesting lets you sell

investments at a loss, and it enables you to use these losses to offset any gains acquired on other investments. Sounds complicated? Perhaps an illustration would help. Assuming you purchased a fund on 1st March for \$10,000 and on 1st May, its value depreciated to \$5,000 in the same year. If you have decided to harvest the loss you have incurred, then it will be depicted as a short-term loss since the fund was held for less than one year. Your tax savings would be \$1750, assuming that it is 35% of your ordinary federal tax. This means that your tax savings are \$3250. Tax harvesting is not a simple concept. Initially, you need to determine whether the loss you have suffered is substantial enough to harvest

it. You will also need to assess the problems related to exiting the market and probably missing out on any potential gains. This problem can be avoided by following the wash sale rule that permits you to sell any stock or mutual fund you are holding and then replace it with another stock or fund as long as the replacement seems to be substantially identical.

Hire the Best Accountant

Many small businesses do not understand the importance of accounting for the survival of the business and its growth. Your accountant should offer to do more than just work on your financial statements and file your taxes. If this is

the only thing they do for your business, then you should hire a new accountant. The accountant should help you throughout the year for your finances. He should track your income and expenses and ensure you do not have a cash flow problem, and also monitor your profits, both gross and net. Work with your accountant the day you start your business.

Chapter Sixteen: Common Business Mistakes and FAQs

Most Common Business Tax Return Errors

The following list contains the errors most commonly seen by the IRS on tax returns, such as business tax returns. Double-checking that you don't make any of these errors is a good way to save yourself a lot of trouble in the future and keep the likelihood of being audited as low as possible.

- 1. Social Security Numbers or Employer ID Numbers which are**

Missing or Incorrect: Double-check these numbers when you enter them on your tax return and be sure you have the correct number for the entry and your type of business.

2. Misspelling your Name: Check that the name you enter on your tax return matches the name on your taxpayer ID number or your Social Security card.

3. Selecting the Wrong Filing Status: A typical error, for instance, is filing as head of household when filing as single was the intention and the correct status.

4. Computational or Calculation Errors: While determining taxable income, estimated tax, withholding, and

commonplace tax deductions and credits.

5. Entering Data on the Wrong Line :

For instance, entering withholding amounts or estimated taxes in the wrong place is common.

6. Errors in Math : For instance, it is common to see an extra zero or a zero left off at the end of an entry or an item that was typed in incorrectly, causing problems with the amount of tax owed.

7. Not Signing and Dating the Tax Return: Be sure to sign and date your return, and ensure that your spouse also signs and dates if you are filing jointly.

Frequently Asked Questions

Here are the questions most frequently asked of the IRS about filing taxes.

- Question: How do I let the IRS know of my recent address change?

Answer: You can do one of the following: file Form 8822 to change your address, use your new address when you file a tax return, send the IRS a written and signed statement with your name, old address, new address, and SSN, ITIN, or EIN, or notify the IRS via telephone or in-person.

- Question: When must I stop claiming my child as my dependent?

Answer: You can no longer claim your child as your dependent when he or she

no longer meets the qualifying child test. To pass the qualifying child test, your child must be a student younger than 24 years of age or younger than 19 years of age by the end of the calendar year. If your child is "permanently and totally disabled," your child permanently meets the qualifying child test, and you can keep claiming your child as your dependent without limit.

- Question: What is the maximum income that can be earned by a single dependent student before he or she is required to file an income tax return?

Answer: Use Publication 501 to determine if you need to file an income tax return.

- Question: If I made an error on my tax return and filed it, what should I do?

Answer: Mathematical errors are often caught and corrected by the IRS in the processing of the return. If your error involved incorrect income, deductions, or credits or the wrong filing status, file an amended return using Form 1040X.

Conclusion

Business Tax can be challenging if you don't know how to calculate your taxes. Even if you have someone to do your taxes for you, it will always come in handy to understand how taxes are calculated and also to ensure that you aren't paying anything more or less than you are supposed to be paying.

In this book, we have covered the different significant business structures and the commonly used ones by small businesses. By now, you must have understood how these business structures function, along with their strengths and limitations in issues relating to tax. We discussed all that you

need to know about the various business structures and how to switch most importantly for business owners willing to change from one business structure to the other.

I also covered some essential tips on how to play safe as a small business owner when it comes to tax processes. The good thing is that if you follow the steps and procedures outlined in these, you can easily increase your tax deductions while increasing your income and growing your wealth base.

I also stated how you could use accounting software to ease your tax calculation worries. When you have so many things to do, tax software programs

prove to be extremely helpful as they not only help you straighten out the records of your financial transactions but also help you calculate your year-end tax returns.

If you still have any doubts about the topic, then you can go through this book again and re-read what you are unsure of. You can also turn to other sources for further reference, and equip yourself with the knowledge to manage, pay your taxes on time.

I wish you luck and hope you fill out all the forms and file your company's tax with ease.