1. Ask a Tax Advisor Q and A | Oct 18, 2022 - YouTube

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Transcript:

hello good morning good afternoon everyone thank you so much for joining us today we are here for tax advisory Tuesday today is Tuesday October 18th and we're very excited to chat with you all about small business income taxes we're going to go over some questions with our tax advisors and hopefully answer some of your questions today so before we dive in I'll just go through a couple quick housekeeping notes for today's session it is being recorded and we will email out the recording to you following

today's session so if there's an answer that you want to listen to again uh you will be able to grab that recording in your inbox um and re-watch the session uh we will be taking questions via the Q a button which is at the bottom of your screen in that Zoom panel there and we'll be answering questions on a first come first serve basis so I recommend if you have a question now you can feel free go ahead and submit it using that q a button you can also use the chat feature if you like sometimes that's helpful while we're answering

your question you can add a little bit more context if it's needed for us to help better answer your question and there's a couple settings with the chat feature so you can either submit a chat message so that only myself the host and our panelists can see your message or you can set it so everyone can see your message so feel free to use either but just be mindful if you're sharing a message to everyone joining just if you're going to be sharing uh or just be mindful to share about sharing any

personal and financial information just in case you don't want that scene by others let me introduce myself my name is Allison I work here at bench on the content team so I develop all kinds of helpful resources and small business guides that cover a whole wide gamut of topics everything from bookkeeping to accounting taxes and all kinds of things in between so there's over 700 resources available on the bench blog so if you haven't been over there I highly recommend you check it out so that's

available at bench.co forward slash blog all right and um just for anyone here in attendance who may not be familiar with uh bench let me do a quick overview so bench is America's largest full-service bookkeeping solution for small businesses we pair you with our in-house expert bookkeepers to get your books up to date and compliant with IRS standards if you ever have questions about running your business that even go beyond the scope of your books or your taxes our bench bookkeepers are actually backed by our client research team and

so they are a team dedicated just to helping out our clients navigate all kinds of complex small business topics and their job is to provide you with informed answers to your uncertainties and questions so we provide you with a whole ton of support even Beyond bookkeeping and income taxes um but just looking a little bit more into what bookkeeping looks like here at bench and how we do it here every month your bench bookkeeper organizes your business transactions and prepares financial statements and that makes it

easy to stay on top of your finances and track the health of your business month over month and then if your bookkeeper ever needs anything from you they'll be able to get in touch with you but if you ever have a question for them you can contact them you could either book a call with them or we have a messaging feature inside of our platform which makes getting a hold of them very easy uh then at tax time we prepare a year-end Financial package so you can use this package to send to your accountant if they're the one filing

your taxes for you otherwise you can use this package to do your own taxes um but even if you are doing your own taxes and you're thinking you know what I don't want to do this anymore because who really enjoys doing their own taxes we can take that off your plate and handle that for you uh and so uh in addition to bookkeeping as I've mentioned uh bench offers a ton of income tax support as well and so that is provided by a number of people as you can see here on the slides so there's a whole team of support uh to

help you with your taxes so you'll get a tax coordinator a tax preparer and a Tax Advisor and they all work very closely with your bookkeeper to get you filed ahead of the deadlines um but I will highlight that our tax support isn't just around filing or or um during tax season it's actually year-round support and that's so that you can take advantage of uh unlimited number of consultations if you like with our tax advisors and so uh what exactly is unlimited tax advisory when you're a bench client and

you're subscribed to our income tax support you can actually book any number of calls you like all throughout the year with our tax advisors during these calls um they're going to get to like they'll familiarize themselves with your business get to know your Finance is a little bit better and answer any questions that you have and offer valuable advice that's tailored specifically to your business they're also going to educate you on methods to reduce your future income taxes and these are your income taxes is likely

one of your business's largest expenses so it's really beneficial to have a professional just kind of take a look under the hood and provide you with some advice on how you can reduce the this large expense ah okay so um let's get into what we're all here for today but first I would like to introduce our tax advisors who have joined me on today's call so we've got uh Camilla Franklin and uh Patrick uh here and so I'll let you both introduce yourselves hi good morning uh my name is Amia

Franklin I'm an enroll agent uh from Michigan I've been with Vince now for just under two years as a Tax Advisor um and an enrolled agent just to give you a little bit of background is similar to a CPA but we are um authorized by the IRS to represent taxpayers um and we are you know kind of streamlined just for tax whereas CPAs are more uh overall um regulatory type um accountants that handle tax as well so that's the difference and um looking forward to working with you how's everybody doing uh my name is

Patrick Eerie I'm also an enrolled agent based out of Dallas Texas so enrolled to practice before the IRS and represent taxpayers before the IRS I've been at bench for about a year and I am a trusted Tax Advisor here wonderful thank you come here and uh Patrick okay um all right so now we can get into questions uh so if you uh haven't already you can submit your questions uh to either one of our tax advisors here uh using the Q a button which is at the bottom of your Zoom panel uh so um we'll answer them on a first come

first serve basis so feel free to pop them in now uh you're also welcome if you have multiple questions uh you're welcome to um to drop in a couple and take advantage of the time we've got here with our tax Pros uh okay so um I will dive into the first question here uh we've got one from Tyler uh this says uh the question is can I rent my house out to my company what is the best way to cover living expenses if I'm unable to pay myself to the extent I would like okay um well um to be able to rent your house out to

your company it depends on uh The Entity um whether it's beneficial or not because a lot of people uh there's something that's called Augusta Rule and so that's very popular right now you know it's one of those Tick-Tock type things that are out there um that are being advertised so really that's not for sole Proprietors because it's all proprietor you know is essentially working and their tax return is with your personal so first of all in order to rent your um house out to your company you should be a separate entity

and that's Corporation C corporation partnership things like that and so it's really only advantageous uh if um you do the Augusta rule because the Augusta rule allows you to rent your essentially rent your home to your business and you not have to pay taxes personally so if the tax is going to be other income is going to be transferred to you uh as far as your business running it is really no there's really no benefit for it so that's another reason why but um if you do it 14 days or less in those entities then yes you

can um what is the best way to cover living expenses if I'm unable to pay myself um well um in the course of your business um I know some people you know take out loans uh you know against the business to cover living expenses uh if possible um you know other people take out you know if your business isn't profitable yet sometimes people take additional freelance things on the side that's related to their position um so that they can kind of supplement their business while it's coming up um you can do that

um and also um people take draws as well so you can take as much as you can you know after your expenses are covered uh those will be like the three top things I would say Patrick you have anything to add no I was just gonna say um because you're um if you're not able to pay yourself um you're probably a partnership or a sole proprietorship um but in the case that you did you know want to become you know an S corp or a C corporation you would be able to uh reimburse yourself the expenses of rent um within the check that you're

receiving on a salary basis and then on the other end if you're a C corporation or an S corporation you do you'd be able to take that deduction of the expense that you included in your W-2 income okay super all right Tyler so we hope that answers your question for you uh and if not please let us know um all right uh okay you've submitted a follow-up question um and we can jump down to that one actually um she said so as a C Corp I can draft a rental agreement out to my company currently I do pay myself but the amount

of tax loss to income tax is insane foreign you could do a rental agreement um this would more so go through what's called an accountable plan um with your payroll processor so what will happen is um whatever portion of the mortgage of your home is for the rent of the company would be reimbursed into your W-2 check but it won't be taxable income and then on the other end the C corporation would then be able to deduct the expense of the rent yes okay okay perfect Alexis thank you great all right uh we've got another question

from Carlos uh how can I save some tax on a capital gain in new NJ in New Jersey is that right um well that's uh we may need a little bit more information I mean but in general um capital gains are all set by any Capital losses that you have so um and it is a passive type of um thing on your return so sometimes the losses are limited you know to your gains but I mean generally that's what it is so if you have for instance stocks that had uh you know gains on it if you had some other stocks that had losses

those are going to offset it if you had um sometimes you know cryptocurrency if it became a taxable event uh to even become on your tax return that may offset if you had a loss you know um you know any other type of investment type of uh income I mean loss can be offset by any gains that you have um this is something that we probably would explore more like on a call because it's definitely specific to your tax situation um being able to answer something like that did you have anything else to add um Patrick Yeah in general in general we

always want to look at things that could manage your tax liability um so like Kamia said we would have to look uh deeper into your situation to see what exactly um you would be able to um offset that tax liability with um a lot of the times we do look at you know retirement accounts what you're contributing to those to see what you can offset um as far as your general tax liabilities concerned so um something that we would want to speak with further with you about hey thank you both um uh all right Carlos you can let us know

if you have any follow-up questions um regarding that answer uh otherwise um uh we'll give um we've got no more questions oh sorry actually there's one here in the chat oh let me just grab this one moment okay so uh Elizabeth uh thank you for your question uh if you rent your home or building to your business wouldn't that become rental income to you as the property owner yes so if you're yeah if you're renting it for more than 14 uh days within the calendar year at that point that is a

rental property and the company renting out uh that building or property would end up claiming that uh rental income you know that's what I was getting at earlier when I was talking about the Augusta rule um because it's out there that you can rent it but you know it doesn't really make sense to sometimes sometimes it does but other times it doesn't if you're going to transfer that uh tax liability over to yourself personally you know because you have to add that income that you have is rent you know

what I'm saying so it's really specific you know definitely you know C corporations are taxed at 21 and that's a flat amount right now so if your tax uh situation personally that's going to drive you to a higher tax bracket it may not be beneficial for you to do something like that you know what I mean so it's specific to your tax situation okay great uh Elizabeth teaching let us know if you have any follow-up questions for that um Tyler has a um a follow-up um okay so going back to the tax liability

with income uh is there any way to send income to a savings account to mitigate any tax liability but still declare it as income that's an interesting question yeah so um there's different ways to go about it depending on what your business structure is so if you're structured as a sole proprietorship um when you're reporting that in that net profit on your schedule C whatever that net profit is is already going to get taxed self-employment tax and the uh marginal tax rate that you're at so um

it doesn't really matter where you're putting the money in the the IRS just wants to know who's actually claiming that net profit so um in your case if you are a sole proprietorship um whatever your Revenue minus your expenses are is essentially what you're going to be taxed um according to the IRS okay great all right um and uh see Carlos has a note here which I can follow up with um command Patrick just so you know I'll send Carlos a message um okay we have a another question uh that popped up in the chat from

Elizabeth if I hire someone to work for me as a contractor should I file a 1099 NEC or 1099 misc great question uh if there are independent contractor and they're doing active work for you then it should be a 1099 NEC because um it used to be 10.99 to 1099 miscellaneous form but I believe that was two years ago they changed and they brought back the 1099 NEC so they have removed non-employee compensation off of the 1099 miscellaneous like if you were to look at it it's no longer there and any type of non-employed compensation or

self-employment or a contract work would go all the 1099 NEC miscellaneous is now really for like rental income other income uh attorney these things like that um but the NAC is the best one for that particular situation okay great yeah that uh is a common question and those deadlines are coming up in January so yeah um okay uh all right there's a question here in the Q a box from Robin if you are a sole proprietor with a home office can you write off part of your rent uh or your mortgage although um Robin's saying that

she rents uh for that space that you use as your office another common question we get asked so yeah you can um but like Camille was saying um at times it may not be as uh beneficial as you think if you're also claiming in uh the rental uh income that you're bringing in from renting it out to your own company um another thing you could look at is you know home office deductions where um you look at the square footage of your actual home and then you compare it to the square footage of the home office and then

um based on the percentage of how much that home office is taking of your home you're actually able to deduct the utilities that you share between the home office and the uh personal side of the home and then multiply that by the actual portion of the home office that's taking up the the rest of the home if that makes sense yeah or or you can also do it uh they have a standard where you can just do uh five dollars per square foot uh if you have a home office up to 300 square feet which is a total of fifteen hundred

dollars like if you didn't have all that information readily available you just want to take the standard uh type of deduction there you could do that as well but uh that is an alternative for you know renting your home to your uh to your business you know it and it still can be a deduction you know and not have to be so formal uh but if you are a sole proprietorship you would do it like we just mentioned but if you were some other type of business such as like an S corporation you would need to do that in

conjunction with an accountable plan where you just you know you kind of calculate that in the beginning determining how much money you want to pay yourself back or reimburse yourself for your home office and then reimburse yourself and then it becomes deductible to the business um in it and add it to your W-2 yeah okay okay yeah great Robin says thanks for having me clarify that and I'll just um paste in the chat here we've got a great uh blog post on frequently asked questions uh that we have received over

the years uh from our clients about the home office deduction so feel free to check out that uh blog article and that might uh help answer even more of your questions and provide you with a bit more information uh okay so so I'm gonna jump back to the Q a we've got another question from Tyler so as a C Corp uh I think Tyler you mean how do you um let's see how do you file for tonight contractors um that have no social security number how do you 1099 contractors with no social security uh I think I think he wants to know how

can you issue and you can correct me if I'm wrong Tyler how do you issue a contractor's a 1099 with no social security number if that is the case uh what happens yeah what happens is um before you start working with them you should issue them a W-9 requests or ask them to complete that that uh particular form there uh allows them to report how they want to be paid you know either under a business name or their personal name they would have to disclose their social security number or their tax ID number if their business and want to be

paid as a business uh with with that form and so that way you have that ahead of time so if you've done that and you haven't done that stuff you know you've paid them you will still need to request that information if you don't have it uh By the time it's time to file these 1099s by January 31st of the following year um and they and they refuse to give it to you then what you have to do is file to 1099 and then write reviews at the top uh it would have to be mailed in and versus e-file because in the e-filing

system you have to have uh you know an identifying number for it to go through but you would have to mail it in and then what happens is um that lets the IRS know that the person uh refused to give you the information to be taxed and so if that's the case they can look you know there are steps that the IRS takes I'm not exactly sure what but eventually um if it's wrong or if it's a mismatch they will send to you that you have to um do backup withholding for them meaning that you are you know anytime

you pay them if they're not going to give you the right number you have to do a mandatory withholding from them uh I think it's 35 or 40 percent of their money and so that kind of prompts them to give you the information and also if if you find out that there are non-resident alien or um you know the reason why they don't have a Social Security is because they're not a citizen or anything like that um at that point you would have them fill out what's called a w-8 Ben um and that's not necessarily filed with

the IRS but you keep it for your records in the case that the IRS wants to know where their information came from when you pay them out okay I've also thrown in the chat there just a couple uh guides that we have on the bench blog about uh 1099s so you can check those out as well for uh some more helpful information um but Tyler hopefully that answers your question um okay I saw another question come into the chat um Elizabeth is asking how you determine how much to pay in estimated taxes another question another great question

that we get asked regularly um go ahead no go ahead oh okay well I was gonna say that um I have a delay oh okay okay come here you go ahead okay um uh estimated tax uh is generated by um you know if you're a sole proprietorship or a single member LLC or personal um you know even an S corporation is generated when you owe more than a thousand dollars in a prior year so first you have to owe in order to be able to uh really have to pay estimated taxes now there are times when people should pay in advance the tax that they

owe for the year especially if you expect to owe um a good amount of money so that you're not having to pay a lump sum of money at the um at at the end of the year or at the beginning of next year um so there's first the Safe Harbor so if you owe more than a thousand dollars in one year unless just say you owed a thousand dollars that would be 250 per quarter that you would owe that next year to be in compliance with estimated tax um and so that's what we usually do we do a safe harbor estimate like that

um usually um if you owe estimate the taxes it because it's parked the vouchers are part of your tax return in a prior year and you would use that to pay um but another thing that we do in the tax advisory uh call is we try to give you a decent or kind of A Safe Harbor estimate type of thing um how much you can expect to oh based on the net profit that we see for that year uh for your current year so that you if you don't want to owe more you know um at the end of the year so hopefully that makes sense

Patrick did you and we also have um a tool yeah I was gonna say we also have a tool on the um on the bench website the bench estimated tax calculator It'll ask you a couple inputs um such as what business entity uh type your uh registering as um also what your filing status is and along with any credits that you think you're going to get within that year and then um based off of that it'll give you an output of what we estimate your taxes to be if you don't have a previous year Safe Harbor amount

and for C corporations um the threshold is lower is uh if you owe 500 dollars uh for the prayer that's when you have to pay estimated taxes so um and that's you know your tax is 21 you know generally 21 so that's how much you should hold you know okay we've got one minute left uh there's one more question here from Elizabeth um if we're able uh to answer that one quickly uh she's asking how do I find the Safe Harbor it's just taking a dollar amount and dividing it by four so your Safe Harbor

yeah by four and it'll be the amount that you your previous um tax amount owed was so if we prepare your 2021 taxes and we saw that you owed um let's say a thousand dollars then um just be sure that you've paid they want to make sure that you've paid at least 100 of your previous year's tax liability or 90 percent of the current years okay great thank you both so that brings us to the uh bottom of the hour so thank you everyone so much for your questions and for your engagement um I'll just wrap up today's session by

saying thank you so much for joining us uh and if you think that this kind of tax support would be helpful for your business on a larger scale imagine having um a one-on-one call with either Patrick or Kamia or any one of our tax advisors who can help you uh get way deeper into things with your business um then you can actually give bench a free try we have a no commitment free trial which you can start by visiting bench.

co uh and during the trial we're actually going to complete a prior month of your bookkeeping uh within just one business day and then at the end of that you'll get a set of financial statements to keep and this allows you to just quickly see if bench is the right fit for your bookkeeping and tax needs before you make a decision um uh if you'd like to go ahead with us to help support your business and lastly I'll just say if you found today's session helpful please share our website with a fellow business owner who you

think might also benefit from getting their income tax questions answered we'd love to meet them and see how we can help so thanks again everyone for joining and enjoy the rest of your day bye-bye take care