1. Tax Advisory Tuesday Q & A | September 27, 2022 - YouTube

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Transcript:

good morning and good afternoon everyone welcome to tax advisory Tuesday today is September 27th and we're excited to talk about small business income taxes in our live q a with our in-house tax advisors uh just a couple quick housekeeping notes before we jump into today's session it is being recorded and the recording will be shared with you later today by email so if you want to re-watch an answer that was given to you you can certainly do that and grab that recording in your inbox again that'll be

sent to the email that you use to register for today's session I will be taking questions via the Q a button that's at the bottom of the um the bottom panel of your Zoom screen there and those will answer those on a first come first serve basis so if you'd like you can go ahead and put in your questions now you don't need to wait until we dive into the Q a um but uh yeah please uh we we just recommend to use the Q a button to submit questions instead of the chat just because sometimes questions can get

a little bit lost in the chat but feel free to use the chat if you want to add a little more context to your questions or if you just want to leave a comment or or say hello you can also change the settings of who is viewing your chat message so it can either be just to myself the host and our panelists or the chat can be seen by everyone so you can toggle that setting I'll introduce myself my name is Allison I am your host today so I work at bench on the content team developing all kinds of helpful resources and

guides for small businesses and those are available on the bench blog which is at bench.co forward slash blog if you haven't been there I highly recommend checking it out we've got over 700 amazing resources to help you navigate managing your small business finances so um why don't we quickly go over just for anyone here who may not be in the know about what bench is what we do we are Ben we are America's largest full-service bookkeeping solution for small businesses so we pair you with our in-house expert bookkeepers to get your

books up to date and compliant with IRS standards and if you ever have questions about running your business that even goes beyond the scope of your bookkeeping our bench bookkeepers are actually backed by our client research team who are able to provide you with informed answers to complex business questions so in addition to bookkeeping and tech support we can also help you out with other aspects of running your business we've got a whole support team to help you out so um just going into a little bit of

what bookkeeping uh how it's done here at bench uh each month your bookkeeper organizes your business transactions and prepares financial statements and this makes it easy to stay on top of your finances and track the health of your business month over month if your bookkeeper ever needs anything from you they will get in touch with you but if you ever need to get in touch with them if you have a question you can easily book a call with them or send them a question via the messaging feed in the bench platform

so super easy to get a hold of us when you need to at tax time we prepare a year-end Financial package and you can use this package to either give it to your accountant if they're the one filing your taxes for you accountants love this package because it has everything they need to do your taxes all neat and tidy and organized or you can use this package to file your own taxes if you do your own tax filing but if that's not a task you particularly enjoy like most of us we can actually take that off your plate and do your tax

filing for you as well um so our tech support here at bench is actually provided by a whole team so there's tax coordinator you get a Tax Advisor tax preparer and they all work with your bookkeeper to get you filed ahead of the deadline um and I'll just caveat that our tax support isn't just limited to tax season or ahead of uh getting your taxes filed it's actually year-round service and that's so that you can take advantage of the support offered by our tax advisors who are available year round for an

unlimited number of tax consultations and so what exactly is unlimited tax advisory how does that work uh when you're a bench client and when you're subscribed to our premium uh package which that one is bookkeeping and tax services you can actually book an unlimited number of calls with our tax advisors at any time of the year so these calls will typically last anywhere up to an hour and during that time our tax advisors will familiarize themselves with your finances answer any questions that you have about your business and

then they're going to offer you really valuable advice that's specifically tailored to your circumstances and and to the arrangements in your business but most importantly they're going to educate you on methods to reduce your future income taxes and your income taxes are probably one of your business's largest expenses so it's really beneficial to get this optimized and reduced where you can uh all right so uh what we'll do is we'll dive into some uh intros now of I've got three of our in-house tax

advisors joining me today uh so we've got uh Mark Kamia and Patrick and I'll let you uh go ahead and introduce yourselves sure we can go in that order too um as as Allison said my name is Mark I'm a CPA I've been a CPA for well I've been in tax for a number of years um and I've been a bench here for a couple of years as well a Tax Advisor here you know all of us here are actually tax advisors at bench so you know if if you end up if you are a client or if you will become a client that one of us would be

you know one of the people that you work with I'm happy to see you all here today yes good uh good afternoon my name is uh Kamia Franklin I'm from Michigan I'm an enrolled agent um an enroll agent is similar to a CPA and we specialize in tax specifically versus where a CPA has a more uh well-rounded uh task and so I've been at bench uh the last again maybe about a couple of years coming up on a couple of years and I've been in the tech industry uh coming up on about 18 years so um welcome and we welcome your questions

how's everybody doing my name is Patrick I am based in Dallas Texas um I have about four years going on five years of tax experience I'm also an enrolled agent uh here at bench and a Tax Advisor I'm here at bench since October of 2021. wonderful thanks so much everyone all right so if you haven't already you can go ahead now and submit your questions using the Q a button at the bottom of your Zoom panel which should be down near the bottom of your screen there uh we're going to answer the questions

um first come first serve basis so if you've got a question uh you can submit it now and we'll make our way through them um all right so the first question we've got here is from Benjamin and the question is will the business tax filing include partnership pass through K1 um well if you're asking if you purchase a bench tax subscription and you have a partnership business will it include the K1 yes it will all um okay ones that are specific to that business will be included and you can disperse them you know once the return

is completed that's how that would go hopefully that answers your question yeah and that'd be for obviously for s-corps as well um right both Partnerships and S Corps I mean the key ones for the partners if it's a partnership the members if it's an LLC or the you know the shareholders the possess Corp are are part of the tax return right they have to be completely you get in trouble with the Harris if they aren't completed so not just bench but any Tax Service I would hope would include the k1s for you typically

you know you're you're the person who's the bench facing client so we prepare the return and give it to you and it's up to you to distribute the k1's to the different owners um and that is that we don't necessarily mail them out to the to the respective owners that's the responsibility of the the lead client or whoever you know whoever is dealing with us great thank you okay Benjamin uh yeah and anybody um here uh of course feel free to drop a note in the chat if we haven't quite

answered your question or if you need to provide us with a little more context all right so the next question uh from an anonymous attendee started my business in May uh when do I need to pay quarterly taxes and what percentage of income should I be saving for taxes great question we can ask that one quite a bit so to the first question um your quarterly taxes are due um January 15th for Q4 of the previous year um that's where I'm starting off at and then um April 18th or April 15th of the following year

um and then September uh 15th and then finally December um and then if you're looking to withhold any taxes for business for business income um we would have to see what tax bracket you're in to know the percentage of income that you're going to withhold um and then of course look at any other factors such as how much your W-2 income is withholding to go against that tax liability yeah the only thing I would add is if this is a C corporation um um it it you know you would have uh amounts that are due in those

um increments however um once you have a tax liability of 500 or more that's what prompts you for having to oh and roughly the T Corporation enter I'm sorry tax rate uh of about 21 generally so you could withhold 21 on a C corporation so the other um entities you know llc's sole proprietorships best corporations Partnerships you know they are flow through entities so that um those particular entities um are dependent on what your uh tax um bracket is personally so um just want to put that in there because last time I didn't so no that's

perfect yeah they though vanities that aren't C corpse depend on your your individual tax situation and those are different for obviously for every partner that's part of it or every shareholder um I guess I'll I'll add that you know if you're not making money if you don't have a profit you're not going to owe taxes so I you know if you don't if you don't have any profit especially if you started a business you know some businesses are profitable right away some are you know take a while to to get

up there so if you're if you're making a profit you know probably makes sense to talk to someone about some quarterly estimates but if you're still you know starting the business and not necessarily making a profit yet I wouldn't worry too much about it hey great all right uh the next question is from Jay I have an office in home and have not charged on a per month basis we have a documented agreement that the office will take care of the Home Maintenance it has been a small amount over the years however our home is now 22 years

old and we've had heavy expenses this fiscal year can I deduct a much higher amount this year without an issue I can go ahead and start that one so even if the office or the business and the you know you have an agreement that the office will take care of Maintenance that doesn't necessarily mean it'll stand up to the IRS um virus is pretty specific about home office expenses and you know it it's either you get to take the simplified method which is essentially five dollars per square foot that is used exclusively

for business or you can take the ratio of the area exclusively used for a business over the total area of your living space and multiply that ratio by the the home the expenses for keeping up your home um you know that unless you you know have an exclusive office for 100 of your living space I don't think the business would be able to do you know 100 of the Home Maintenance um so I I would talk with a you know your tax advisor or a tax professional about that and and see if that's something that the IRS you know would

might have a problem with because I think that they might oh yeah what do you guys think um the first thing that comes to mind is if you're um asking can you [Music] use senses that occurred in a prior Year I'm not sure if that's what you're asking but um that wouldn't be possible I think they're just saying that because the home is older there's more expenses this year this year okay um well yeah it would be just basically what the um percentage um of use would be like like uh Marcus

said I mean it's pretty straightforward I mean if you wanted to if you don't have more than 300 square feet um well I guess it would be worth it um but it you can go do up to 300 square feet at five dollars per um square foot and so that's like a fifteen hundred dollar expense that you don't really have to do too much to document so if your expenses are more than that then and if you've had a profit um on your business if you're a Schedule C Business um that probably is the easiest way now

if you have more expenses um depending on the ratio of use um it could be worth it if you did have a lot of expenses regard you know related to your home um if they're expenses related to uh improving the home such as like a roof or things that have to do with the home itself that those type of things would add to the bases and not necessarily uh be something that you could expense off as a home office experience yeah and the basis would um more so come into effect when you're selling the home which would decrease

the capital gains that you would recognize on your tax returns yeah home office even though it seems like it should be something simple it actually can get pretty complicated um you know there's you want to be very careful because IRS is pretty strict about that 100 business use thing right you can't necessarily use like your living room because you know you use that living room personally so you have to make sure that the area of the home office is you know exclusively used for the business and then if you're

doing the the direct method you know keep making sure that ratio is multiplied by those expenses right you know there's certain things that can be 100 you know paid by the business such as improvements you know or if you you know buy a desk or that kind of stuff for your office right but like Camille was saying if you're making an improvement to your house you know putting on a new roof or something like that there's a possibility that the business could you know expense part of that but it keep in mind that

when we're taking these type of deductions especially depreciation of your house there there are some ramifications down the line if you if you choose to you know sell your house some of some of that game may not be excluded right and to piggy off of that because I think um the person uh someone else put it in the chat about um what a safe percentage to claim it has to be the actual uh ratio of the home to the space that you use so you have to actually physically or you should actually physically measure that area you know so

that you have the right amount sometimes people take even take pictures of it yeah straight home or whatever it might be yeah yeah but if you have a uh because you talked about a garage if you have a detached garage that's only used for tools and gear and you're saying that the tools and year um our expenses you know that I'm sorry that you use for your business now you can do that um that that would be an extra one um it's something else that you could add so you're saying you have an in-home

office and then you also use a garage it would be both and keep in mind that you know even if it was you know part of your attached garage you can still use that but it just needs to be an exclusively business used area you can't you can't have mixed use because that that tosses out that that portion as as part of that ratio that you can use right and the garage will be done in the same way if it's not 100 business use so if you use like a corner of your garage or you know a portion of your garage say 20 square

feet or something like that that's only used for those business items you know that there's nothing wrong with doing that at least in my opinion but um you know if you if you're using it for both personal and business things then you know it really does get thrown out and you're not able to use that all right hey great all right uh the next question uh we may have already kind of covered this um as we talked about estimated quarterly taxes the question is um just to go over estimate curly taxes

for a partnership I'm not sure if there's anything any of you would like to add to what we've already talked about yeah so partnership is a pass-through entity so um once the partnership return is complete um the taxpayer is going to use a K1 to complete their return and that K1 is going to have the amount of partnership income that the taxpayer claims on their personal return um that partnership income is then going to yield a tax liability along with all the other income that that taxpayer is claiming

um and if that tax liability is a thousand dollars or more that's when the taxpayer is going to pay estimated quarterly tax payments on the personal level so not on the partnership level but on the personal level of the partner great all right the next question um an anonymous attendee is looking to know how to separate non-taxable payments from foreign clients and taxable payments from U.

S clients they own a non-resident LLC Incorporated in Wyoming um okay so non-taxable payments from foreign clients and taxable payments from U.S clients so you receive income from foreign from a foreign source and you receive income from U.S sources um I'm thinking that's that's how I'm thinking that through that's what it's saying okay okay if that's the case um I mean you can separate that and that's possible but a bench that's actually one of benches um disqualifiers um if you have uh foreign related type things it's just

something that is not part of our business model you know we have to have be able to um service that in the best way you know and so um the way that it is now that's something we really don't do um yeah I think that would be if if it had like a foreign um owner right or or like a a subsidiary but you know you can receive um income from you know foreign customers or whatever I'm sure it happens quite often you know with with e-commerce and that sort of stuff um you know it really kind of depends on the circumstances and the facts of of

what's going on there oftentimes those foreign payments can be taxable to in the US tax code it depends on what the what type of you know whether it's a service or a product um and where the if it's a service where the service is being performed if it's being performed in the US likely it's taxable in the US even if it's from a foreign you know a foreign source so it's tough to have like a you know a one-size-fits-all answer to that type of question but I would suggest you know segregating those payments because your

your tax preparer your Tax Advisor can help you you'll figure out the taxability and figure out if there's any you know additional filings that you would need to do in other states or or in other countries even yeah this is something that we probably would look into on a tax advisory call you know and kind of research to see what um needs to happen in those cases that we would need to you know review you know your whole tax situation to see um you know how far we can go with that it also I think depends on whether

you're like a U.S taxpayer or or a foreign taxpayer because you know U.S taxpayers are going to you know the us is going to tax you on your worldwide income so it doesn't necessarily matter where it comes from um you know when you're out hitting that state by state if you're a multi-state you know business it can have some effects certainly so you know I guess the the general advice would be like I said earlier to to keep those in separate pots um or a spreadsheet with that information so that your your tax

preparer can can allocate that you know correctly when they're doing doing your taxes okay great uh we'll move on um so Denali is a question uh uh they're considering the bench Service uh they have an example question so uh I have a C Corp in Delaware uh and they currently live in California uh they say I'm starting with consulting services and hope to expand I'd like to file with IRS as an S corp for now is this possible without restructuring uh my business do I meet the requirements so um one of the things that I can think of

is the amount of shareholders you have um C Corps can have more shareholders than S Corps um s Corps can't have any more than 100 shareholders um so in your case you would want to make sure that you're in compliance with the amount of shareholders you have before becoming an S corp um and then also just making sure that you have enough cash to pay yourself that reasonable owner salary that's required by the IRS for escort shareholders yeah and I guess the other qualifications for an S corp would be

that there's only one class of stock so you can't have you know preferred and common stock um you know the both that and the shareholder number are issues that don't often come up um but you also need to be an eligible entity which you know includes these qualifiers assuming you're a C Corp in the United States with only us shareholders because I I believe an S corporation can't be 100 owned by a non-us taxpayer um I would have to double check that but I I don't think it's I don't think s

status is available to non-us taxpayers yeah also like as Patrick mentioned you know the the situation in your business needs to be right in order to support an S corp um you know you're required to take that shareholder salary as an S corporation um what else come here is there anything else that we're missing only thing else I would say is um you know it's really an election so there's a the form 2553 that you would have to complete timely uh then the um third month uh 15 day of the year uh not unless you

want to do a late election um which that's possible as well um but generally you know as long as you qualify for the things that were previously uh mentioned then uh you should be good to go I guess going back to the root of the question if you live in California have the Delaware C Corp I I don't think that I can't think of any issues that would you know state-wise it would would run off all that just know that you know you're going to have at least a Delaware franchise you know filing every year

you're not necessarily going to have a Delaware income tax return uh unless you do you know unless you have Nexus in Delaware which means you know you're doing have substantial connections to Delaware okay um so there's another question here related to um switching uh to S Corps from Shelby so moving from a single member LLC to an S corp what are the pros and cons common hurdles typical things you should typically you should pay yourself via payroll correct uh any tips or things to be aware aware of when starting

uh payroll um well the the pro um obviously for um as corporations and a lot of reasons why people actually do that uh election once they're a single member LLC is to save on the self-employment tax uh but it doesn't actually save you um as much as you think um if your net profit isn't at a certain area so we like to start uh suggesting that you know once your profit reaches well I start usually a hundred thousand but if you're at 68 000 and you expect to you know continually grow you know you're on a growth trajectory uh that's

when we were suggested because of the extra expense that you have of course you'll have payroll and then you'll also have an extra tax return you have to file 1120 ads you know employer a payroll provider things like that so it's extra administrative things so that could be a hurdle sometimes um um when starting payroll um to me there isn't really too many hurdles I mean we use Gusto as our provider um so uh just determining what your reasonable salary is that can be uh sometimes a hurdle as well

um depending on what your profit is so um you want to just make sure that not only um you know you're you're doing and taking it to consideration how much people get paid uh doing the things that you do in your business so actively and what you would pay someone off the street to do the same thing but you also have to be I have enough money left to pay yourself so those two things are what needs to be considered am I forgetting anything else no I didn't cut out for part of it um but I assume you covered it all splendidly

okay well I think we have time for one more question uh there's a good one here from Katie what are Best Practices when switching accountants if my accountant has worked with me through the year should I wait until 2022 taxes are filed until switching or is there a better time I would say you switch switch whenever you need to switch um you know if there's a reason why you're switching you know do it I both the prior cone and the the future con will figure out what to do it's obviously always easiest to switch at a

year end but you know if there's other reasons other than you know just wanting a difference you know it it's up it really depends on the circumstances and it's up to you it's easiest to do it at your end but do it whenever and also just making sure that um the accountant had you know good records on your books when you're switching to another account so that you have accuracy when you're moving forward with uh someone else wonderful thank you okay so with that uh we've got uh just less than one minute

left so we'll wrap up um what I will share in the chat here is if you are a bench client and you would like to um uh talk to your uh bookkeeper your account manager about learning more about our income tax services and our unlimited tax advisory if you think that you know just this quick preview here with our tax advisors was helpful imagine having one of them all to yourself to talk to you about your business uh for uh unlimited use all throughout the year so you can head to that link there in the chat that I've

pasted to talk with your account manager about upgrading your bench subscription otherwise if you are new to bench and you would like to give us a try you can actually try our services on a free no commitment no credit card required free trial uh what we do during the trial is we complete a month of your books within one business day and then provide you with a set of financial statements to keep so you can get a really quick sense of whether uh bench services are going to work for you um or not and you can start a free trial

by heading to the website there on the screen bench dot Co and lastly I'll say if you found today's session helpful please share our website with a fellow business owner we would love to meet them and help them out with their income tax questions so thank you everyone so much for your questions today we hope you enjoy the rest of your day take care