23. Tax Advisory Tuesday Q & A | August 23, 2022 - YouTube

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Transcript:

hello everyone uh good morning good afternoon uh welcome to our august uh 23rd edition of tax advisory tuesday uh where we host our ask attacks advisor session which is a live q a with a couple of our tax advisors we have here at bench and we're going to be talking all about small business income taxes some very quick housekeeping for today's session it is being recorded and the recording will be sent out to you following today's session so you'll receive that in your inbox later today and that will be sent to the email that

you used to register for this session feel free to use the chat feature here in zoom just be sure to change the setting to panelists and attendees so everyone can see your comments and when using the chat and also when submitting your questions just be mindful not to share any personal or financial information that you wouldn't want to have shared publicly in a video recording and lastly we will be taking questions via the q a button which is at the bottom of your screen in the zoom admin panel there we're going to be answering questions on

a first-come first-served basis so you're very welcome to start submitting your questions now and then we'll be answering the questions um based on the order that they've been submitted let me introduce myself my name is allison i work here at bench on the content team uh so my role um is to develop all kinds of helpful resources and small business guides which are available on the bench blog which is found at bench dot co forward slash blog so highly recommend checking them out if you haven't been over to our blog yet

but for those of you not in the know what is bench 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 goes beyond just your books and your bookkeeping our bench bookkeepers are actually backed by our client research team so that's another in-house team who are able to provide you with informed answers to all kinds of complex

business questions um so uh anything you know to do with accounting maybe payroll uh even taxes this team is is here to provide you with uh support so um yeah our services really extend you know far beyond that of just uh bookkeeping and getting your books done but what does bookkeeping look like here at bench every month your bench bookkeeper organizes your business transactions and prepares financial statements and this makes it easy for you 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 but if you ever have a question for them you can easily book a call and speak directly with them then at tax time we prepare a year-end financial package that you can use to send your accountant if they're the one filing your taxes for you or you can use this year-end financial package to file your own taxes if that's what you do but if filing your taxes is not something you enjoy which i think is the case for most people we can actually

take tax filing off of your hands as that's the service that we can also do for you and so tax support here at bench uh basically uh we have a premium plan and that includes both our bookkeeping and the tax services and with that premium plan you actually get a whole team of tax support so you get a tax coordinator a tax preparer and a tax advisor and they all work closely with your bookkeeper to get you filed ahead of the deadline and this tax support isn't just limited to tax time or or you know just around

tax season ahead of the filing deadlines our tax advisors are actually available year round so you can receive you you can do tax planning and receive tax income tax advice at any time of the year to help you optimize your income taxes for your business uh so a little bit more about our unlimited tax advisory um you can book an unlimited number of calls with our tax advisors and these calls typically can last anywhere let's say up to an hour during that time our tax advisors will take a bit of time to familiarize themselves

with your business answer any questions that you have and offer valuable advice that's really tailored specifically to your business structure um or you know all the nuances of your business um they'll educate you on methods to reduce your future income taxes um and with income taxes being you know approximately 30 to 40 percent of your businesses income it's likely one of your businesses largest expenses so it's really beneficial to receive some professional support in um you know finding ways to reduce that

that expense and again this service is available uh at any time of the year not just ahead of uh the tax filing deadlines so let's go ahead and meet our tax advisors who have joined me here today i've got mark and kamiah so mark why don't you um uh introduce yourself first sure um as allison said my name is mark i'm a cpa and i am based in wisconsin here in the states um i'm one of the along with camilla one of the founding members of the bench tax advisory team i've been here for about a year and a half now um helping

clients just like just like all of you and great to see you all here with us today hi and yes i'm uh camilla franklin daney i'm an enrolled agent um i like to start by telling people about enrolled agents because it is a term that a lot of people are not used to hearing so i'm an interrupt agent it's designated by the irs it's similar to a cpa um you have to take a three-part test to be able to um have the designation uh we um are basically just authorized to do tax matters whereas cpa they handle

maybe audits at testation they have a more rounded well-rounded um type of uh tasks they do so um but we are similar and we're you know we have unlimited rights to represent you with the irs and i'm also in detroit michigan and i work directly for a bit so good nice to see you guys and we'll not see you but you know speak with you all right wonderful thank you um okay so we've got uh some questions coming in uh and just a reminder uh to submit your questions via the q a button which is at the bottom of your screen

um tamika thank you you've submitted your question via the chat we can definitely answer that but uh to everyone else who's joined us please submit your questions via the q a button just so that they don't get lost and buried in the chat okay so the first question is from carolyn um so she says i'm a sole proprietor owner of an llc and have been filing as an s-corp based on advice i got years ago do you recommend i keep the s-corps or would it be simpler to cancel my payroll provider and be a sole proprietor llc

i can take that one well it depends this is something that we see often people that may have decided to be an s corporation prematurely i mean and it definitely depends i mean um one of the top reasons people become s corporations are because they want to save on self-employment tax so it saves you in tax but sometimes um you don't save in self-employment tax because one of the uh requirements are you have to take a salary and so that's why we um sometimes tell people to wait um until at least your profit begins at 50

to 100 000 a year your profit and not your gross your gross income once you subtract up your expenses that becomes your profit later so if you're after expenses if they aren't if your profit is not more than like 50 000 your 50 or 100 000 your savings become minimal um so i mean it could be simpler to just become a sole proprietor because of course you wouldn't have to worry about doing all those payroll you know form 941s or having a payroll provider however um the only thing with that is um there's a revocation period so you have

to revoke your s corporation election and so if you ever wanted to become a s corporation again you would have to wait the five years before you could become a s corporation again so like okay i don't make enough money i'm not really saving i'm gonna revoke it okay now i make i made 250 000 in profit oh no i want to be a s corporation as well you have to wait you know and so those are the type of things we talk about in the in the um tax advisory calls that we have to see you know we can see trends we can

identify um pacing things like that to see you know if it's more advantageous or if you have other reasons why you want to become an escort because that's sometimes not the only reason why people um decide to be a s corporation yeah you have anything else to add no you hit everything there can you um you know you can get around the five years you know if you maybe like wind on your llc and start a new company right so essentially what can you said right if you're still saving money with your s corp it probably makes sense to keep

that s-corp if it's not saving you tax money anymore you know because you know maybe you're operating at really close to even or you're even taking losses then maybe it makes sense to either wind that company down or make you know make an election to revoke the s corp status uh just be cautious because i think simply revoking that escort status brings you to a c corp which probably isn't where you want to be so you want to make sure that the irs thinks that you're going to be a a sole proper you know a disregarded

entity okay great thank you both um so i'll answer uh tamika's question had come in next there in the chat so if you operate a small business as an independent contractor and as a sole proprietor but within the same line of business you have one source of income is under your dba or your ein and another source of income is under your personal name as a 1099 employee do you complete two separate schedule c's sure i can take that one so it sounds like at least according to the prompt that it's kind of the same

line of work um and in general i would be finding you know filing that on one schedule c as long as all the all the income is out you know being um captured by that that activity and the expenses are maybe joint for for you know what's going on there you know you don't want to be you know running a ken on you know selling or having a you know food truck or something two very unrelated things but if if they're in the same line of business which it seems like in this case you know unless literally you're well

and even if it was two eins you know one could be a dba of the other um but i think one schedule c is probably all you need in that case and you agree i think so i mean as long as you know because it's all going under your social security anyway you know on the schedule c you'll have your tax id number on there um but like you said it's really a disregarded entity anyway so it should be fine you know yeah it could be just fine just so i'm just trying to be making sure that you're you know reporting all of well

all of the income that comes to you but reporting at least you know enough to cover for those those 1099s that you get both under your name and your ein that's the most important reporting all the money okay great uh the next question from sean is if last year's books were off by a certain amount and reconciled and taxes filed what is the best way to document in the event of an audit sure um you know there's a lot of situations that this uh this scenario could cover i guess if you know that you you know either

under reported your gross income or underreported your net income you know that's an issue where you may want to talk to your tax professional and go back and amend that return to make sure that the irs knows that you're reporting all the income that you received because it's really really easy for them to match up you know the 1099s that are issued to you and all the other sources of income that are issued to you and mesh it up with what you report on your return and see if you know you report enough or not

um we get you know those are those are automatic notices they don't even need you know a revenue officer to look at those they come out all the time um if it's i guess i if it's like you didn't claim expenses you know it may make sense to go back and amend anyways you could be do a refund because you over reported income um you know it really depends on the on this the materiality which by that i mean you know the scope of the error if it's completely wrong you know it probably makes sense to go back and fix it if

it's off by just a tiny little bit you know specifically i guess over reporting income and you don't want to you know pay to have it amended or whatever you know you can probably skirt away with that but it really is important to to have an accurate tax return on file with irs in my opinion okay and best way to doc i guess to document inventive audit you don't keep your records um the irs says to keep them for i believe three years after your tax return is filed um i usually tell tell my business clients

to keep records for for seven years um and records don't need to be obviously you know paper they can be electronic records or that sort of thing but um you know like you said if it gets audited the iris is going to want to see the underlying records so make sure that you have those available great good advice thanks mark all right the next question um i was in an llc partnership but sent a form to the irs to be a sole proprietor and file uh as an s corp in february 2022 the irs hasn't confirmed my tax status so i'm not sure if i can

file as an s corp or a single llc okay um okay so if you are in a llc partnership um usually what has to happen are you saying that the partnership ended and so that's why you're so proprietor now if that's the case then the partnership um would need to really file a final return and then you would just become a sole proprietor for whatever transactions you do um you would not be able to operate under the same ein number and that partnership um from what i understand so you would you could just start being a

sole proprietor and not have an llc not have anything but if you did do that be made a new llc and are so proprietor and then filed to be uh take the s corporation election and that's what you're saying has happened um and this is common because irs has been having you know a lot of issues with their paper uh transactions and things like that so last year was taking over a year for people to get their s corporation approval so i have seen where they're coming a little bit quicker but um one resolution we do is if you do have a s

corporation election application form 2553 in with them um you can um take that application and put it on your filed return for for instance 2022 if that's when you decided to take the s corporation election and it's and it's um you did it by march 15th of 2022 um you should be okay to attach that form along with the um form 1120s for the s corporation and then um but you may have to follow by paper that's something that probably won't be able to be electronically filed but that's a workaround for it if you don't receive

it by the end of 2022 but we tell people you can act as if you are an s corporation if you've sent the proper info proper information and you are you know and it is correct because only thing about it is if um the 2553 was filled out incorrectly it may get rejected and so then you're running into an issue and then if that actual 25 53 form that you're sending is incorrect then it may you know become a problem so just make if you did file it on time for that year then i feel that you're like you're safe

to uh do it that way yeah as camille is alluding to here i guess there's a lot of moving parts it kind of depends on the the timing of sounds like it went from a l or a partnership maybe to only owned by one person so it depends on what time that happened um and you know it depends on when you chose an effective date for your escort election because that's different than the date that you you know file and send it in so if you chose january 1st of 2022 sent it in february assuming it's a properly you know

prepared and filed election and you are an eligible you know entity then you probably are safe to assume that you're going to be an escort before this year because you know it's timely filed and you're eligible so you know you're just waiting to hear back um i have been hearing back a little bit more quickly from the irs i don't know if camille has you've experienced that as well but i i've had clients you know get their um cp 261s a little 261 250 on whichever whichever the authorization is

261 i think yeah a little bit more timely than they had been you know during when we're in the height of the pandemic um but escamilla was alluding to as well you know if it was a partnership a part of last year and then uh a sole prop you know because the partners left you know there would be a final partnership return to file and then probably a a schedule c to file for a portion of that year if it was a sole prop as well if you're if the llc partnership is electing scorp and you're electing you know because i've had a couple of these

situations where you know you drop a partner you're going to go down to become a sole prop but you actually want to start s corp at that point you know if you have that as your effective date then you know you would have an escort you know an escort return for that portion of the year that you elected s corp for so this question really depends on the timing of all these all these events great uh all right we've got another question from carolyn uh if you have multiple dbas do you have to list them all in your tax filing

i'll take the lead on this one then camilla because she might have a little more experience actually but um if they're disregarded entities so if they're you know schedule c entities and they have no activity i don't think you need to file anything for them if they do have activity then you would need to file a schedule c for them so you know if you have and me maybe you can add a little if you if you have experience with this but what if you have you know a a parent company with activity and a dba with activity and

they they're you know one's owned by the other i mean you're saying that okay so you have an llc and so you have a dba for the other businesses that you operate under the whole parent you know to me um if if it's gonna go you know as long as you're capturing all the income of the dbas you shouldn't have to write all the dbas because they're disregarded entities anyway so um it's not a lot of places like you don't have to sit there and like okay i'm doing a schedule c this is this company's name dba this

thing you do another one this is company name dva you don't have to do that you can just do the one just make sure you do the one uh schedule c um that has the ein number and then just make sure um any 1099s i'm assuming is just one 1090 uh i'm sorry ein number just make sure all the 1099s are captured on that same form you should be okay you know on the same schedule c4 yeah and this one kind of depends it depends on the ownership structure and what kind of kind of entity it is um and it sounds like dba's feed all

into one bank account so that i i assume that's one ein because you can't you know open you know that would make sense to me is that you know if you have a an ein an overall company with dbas you know below it you wouldn't necessarily need to file for all the dbas it would just be for the parent density it is and we're talking about llc's now if you like he said if it's something else like if it's a corporation you know it may be slightly different but the answer would be yeah different

for them yeah but if you talk about just like an llc single member llc then yes you're okay okay great yeah and carolyn confirmed uh that it's one ein and that the dba is feeding into one parent bank account yeah okay okay great all right um i guess to add to that the dbas probably should be registered with the state right community making make sure that the state knows that you're running you know these dbas for that company but if they don't have eins there's no tax reporting for them okay great addition

um great okay and just a reminder to everyone else who's attending you're welcome to submit your questions via the q a button um we've got another question here from carolyn which we can answer uh how uh do you recommend that you keep personal cash gifts or inheritance separate from your business income as a sole proprietor that's a great question oh yeah you definitely just want to have a business bank account for your business income and then so if you getting the personal cash gifts or inheritances or whatever else is

personal just have that in your personal bank account so the the key here is to just put your business income in your business bank account and don't put anything else in there and everything else can just go in your personal bank account that's most important exactly keeping those those things separate is super super important um you know and the best best way to do that is to have a whole separate bank account for the business and you don't do any personal things out of that business account you don't do any

business things out of that personal account yeah okay great all right um okay we've got another question from eric uh who says okay uh first year as an s corp company uh 2022 revenue was approximately two hundred thousand dollars as two employees an owner and a social media manager uh the owner's wage is about eighty five thousand and the social media manager's wage is about forty thousand um so eric's asking with all those uh details uh do you believe being an s corp will save uh him more money well um

assuming we're assuming if the owner's wage and the social media manager wages only expenses that are there you know in the scenario if this is our scenario this means that your net profit is around 75 grand um your savings you're working towards you know it could be beneficial for you to go ahead and start the s corporation if you think you're going to trend upwards well and remember that yeah that's after the owner wage too so that would be the profit after the wage right after the right so i mean

you probably going to save a little bit of money you know what i mean you have to take into account you're going to have to file an 1120s form which that's going to cost you that may cost you between 700 and a thousand dollars you know and so you're going to save you know i always started a hundred thousand dollars because that's a flat number and so you know when you take into account generally you save about maybe five grand you can tell me if you agree maybe five thousand dollars in taxes because of the self-employment tax um

you um can stand not you know maybe five thousand dollars at a hundred uh thousand dollar profit so if it's less than that then it's minimal you know what i mean it may not you know after doing everything that you need to do to maintain this as preparation your savings might not be but sometimes if a person is trending upwards i would say and they have other reasons go ahead and get that s corporation you know sometimes people want to show their w-2 income and they need that w-2 income to be able to do some things as far as

qualifying for homes and things like that so if they have those type of goals then sometimes i tell them yes yeah and in this case like can you said if these are the only expenses or the wages um you know and there might be some a smattering of of operating expenses in there but you know assuming this was a sole prop you would have you know 200 000 less 400 000 so 160 000 in in schedule c income that you would be paying you know social security and medicare on up the social security up to the 140 000 cap or whatever that is so

if you set your wage at 85 you're saving the difference between that 85 and 145 or whatever the the social security max is so essentially 60 000 times 0.7 right is that yeah or 12 percent actually because you're saving both sides of it so oh yeah i think in this case you're you're going to see significant savings by being an escort over uh or for a sole prop assuming everything else you know falls into line with what we're talking about yeah okay great uh next question what is your recommended method to reimburse yourself

or your business for shared personal or business expenses an example would be a shared phone bill well it depends on what type of entity it is not as a single member llc of course if it's a shared personal business uh phone you have at home um that would be you know we just do a ratio that would be a ratio of whatever um business you should use um now if it's a um s corporation for example those you have to because it's a separate you know type of thing you have to um do it in conjunction with an accountable plan so an accountable

plan is really just i i've been lately calling it a contract but i mean i guess you could say it's a contract maybe or maybe not but it's an agreement between your business and yourself okay and you're saying okay such and such business i'm going to reimburse you person person individual this amount of money per week or per month for the business use of your personal item and so assuming that this uh this phone or whatever is it's a personal item whatever you agree to do you would put it on the accountable plan and then you

would submit receipts and then based on the receipts you would be reimbursing yourself so it just depends on what um which type of entity it is but if it's just basically a single member llc that's really typically done at the end of the year i mean would you uh agree like this not really something that you would reimburse i mean you could reimburse yourself for it um out your business bank account um yeah it depends it depends on if the business is cash or not you know if it's a it's a simple sole prop um you can essentially

you know take that deduction for the business portion of something like a telephone or internet or that kind of stuff um that you pay personally you can take those expenses now if the company has cash and you want to actually reimburse yourself with the cash you know if it's a sole prop there's nothing wrong with doing that at all just write a check or make a transfer or whatever it is ask me i was alluding to you know if it's an s corp or a c corp um you know partnership is probably a good idea to do to have an

accountable plan because that's what the irs is going to look for if they ever you know come come looking into what you do and that's another humble plan essentially sets up the amount and the types of things that can be reimbursed um and there's a lot of rules for it um but that's something that we would we could help you out with one-on-one right great all right well that brings us to the end of today's uh 30 minute session so i just would like to thank everyone for your questions um we hope

that you found our tax advisory services helpful uh and if this type of support is something that you think your business would benefit from on a larger scale you can actually give bench a test run with a free trial we offer a no commitment trial where we complete one month of your bookkeeping within just one business day and provide you with a set of financial statements to keep and this allows you to quickly see if bench is the right fit for your business so we'll end things by just saying if you found today's session helpful please

share our website with a fellow business owner who you think might also benefit from getting some income tax questions answered we'd love to meet them and see how we can help so thank you everyone again for attending and we hope you enjoy the rest of your day take care bye