1. Tax Advisory Tuesday Q & A | August 16, 2022 - YouTube

<https://www.youtube.com/watch?v=Ab8fE0i58TM>

Transcript:

good morning and good afternoon everyone thank you so much for joining us it's tax advisory tuesday and we're excited to welcome you to our ask a tax advisor weekly series uh it's our live q a where we're going to talk about small business income taxes just a couple of housekeeping items before we jump into today's session it is being recorded and the recording will be shared with you later today by email and that'll go to the email address that you use to register for today's session

feel free to use the chat feature here in zoom which is located at the bottom of your screen just be sure to change the setting to panelists and attendees so that everyone can see your comments uh in the past sometimes attendees have been finding it helpful to provide a little more additional context about their business in the chat as a tax advisor is answering the questions that have been submitted so feel free to do that but again just keep in mind that um the chat uh you know when used in a public way um will and it will be

recorded in the video so just be mindful not to share any personal or financial information that you wouldn't want made completely public and lastly we will be taking questions via the q a button at the bottom of your screen and so we'll be answering questions on a first come first serve basis so if you can please submit your questions via that q a button and then once we get into the q a portion um we'll pull up and answer questions uh again as they've come in on first come first serve basis so let me introduce

myself my name is allison i work at bench on the content team developing all kinds of small business resources and guides uh which are available on the bench blog and that's found at bench.co forward slash blog but for those of you not in the know about what bench is let me give a little a brief walk through so bench is america's largest full-service bookkeeping solution for small businesses we pair you with our in-house expert bookkeepers and get your books up to date and compliant with irs standards

if you ever have questions about running your business that go beyond the scope of your books our bench bookkeepers are actually backed by our client research team who provide you with answers to complex business questions that again range on all kinds of a variety of topics outside the scope of bookkeeping uh so 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 to stay on top of your finances and track

the health of your business months over month as time goes on 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 with them at tax time we prepare a year-end financial package that you can use to send to 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 but if tax filing isn't your favorite activity which i'm sure it's not many

many people's favorite activities then we can actually take that off your plate and handle your tax filing for you ahead of the tax deadlines and so looking a little bit more into what tax support is like here at bench our tax service services actually include an entire team of tax experts who will work with your bookkeeper to get you filed ahead of the deadline so that includes a tax coordinator a tax preparer and a tax advisor and this tech support isn't just limited to uh tax season or you know ahead of

the tax filing deadlines it's available year round uh and that's especially um uh you know receiving support from our tax advisors like command mark who are joining me today they're available year round to provide you with support advice guidance to help you optimize your income taxes for your business and so a little bit more about our unlimited tax advisory when you're a bench client and you're subscribed to our premium package and this is the package that specifically includes all of the tax support that i'm mentioning

you can actually book an unlimited number of calls with our tax advisors there's no additional hourly charge you can reach out to your tax advisor at any time of the year and these calls with your tax advisor typically last anywhere up to an hour during that time your tax advisor will get a little bit more familiar with your finances in your business answer any questions that you have and offer valuable advice that's tailored specifically to your circumstances in your business they'll educate you on methods to reduce your

future income taxes which is likely one of your businesses largest expenses throughout the year so it's really beneficial to have this expense optimized for your business and again this service is available not just at tax time but year round so let's go ahead and meet our tax advisors again we have kamehameha and mark joining us today so kameha why don't you go ahead and introduce yourself first absolutely hello everyone uh my name is kamiyah franklin daney i'm an enrolled agent i work directly with bench as a

tax advisor i've been here a little over a year um just to let you know um enrolled agents are designated by the irs similar to cpas that are designated by the state so cpas are more uh they have a bigger range of uh things that they can do with their license such as auditing attestations and tax where the enrolled agent is really just specified for tax and actually representing you in front of the irs for your irs tax matters so it's nice to meet you everyone yeah and my name is mark um i am a cpa i've been cpa for

six or so years now um i've been a bench for exactly two weeks less than camilla has been so um a little bit over a year and yeah i all of those great things that camille said about ea's and cpas is you know we have a team of tax advisor professionals that you know if you're a bench test client you get assigned one of us and we can have that one-on-one relationship with you and and you know i'm always excited to work with my clients wonderful thank you come here and mark okay um so why don't we get into what we're all

here for getting some small business income tax advice so if you have not already please submit your questions via the q a button at the bottom of your zoom screen and we're going to answer those questions on a first come first serve basis so the first questions that have been submit those will be the ones that i that we answer first so again that q a button is found at the bottom of your zoom screen and that's where you can enter in your questions uh so we'll give everyone a little bit of time to put in their questions

um and uh in the meantime here i've got one question um so uh the question is is it better to have w-2 employees or just 1099 contractors uh come here or mark i'll let you decide he wants to jump in i can go ahead and answer that first uh really it depends on the nature uh of what they're of what they're doing for you you know we kind of get this um often w-2 uh employees um according to the irs they have certain um things that the irs look for uh in order to be you know uh an employee i mean people um really get this mistake and

like you can't just choose to either 1099 someone or put them on the w-2 as an employee like if they're doing certain services for you meaning that you're controlling uh what hours they come in or you're controlling what what their duties are um versus a contractor where they would be controlling what hours they work to do the uh work for you or how much you'll be paid it's in a contract and so the irs has like a list of 20 i believe it's a list of 20 things that they go by to determine if a person is

really supposed to be a w to employee or if they are uh more like a contractor so a contractor or 1099s are people who are self-employed you know essentially and so they pay their own self-employment tax versus where when a person is employed by you and as an employee and getting a w-2 that employer pays the uh what you call the self-employment tax which arises about 7.

6 so um it's very important to make sure that you're paying a person the right way you have any other thing to um add to that mark um yeah so it obviously it's important to you know review the relationship that you have with with you know each worker that you have to determine whether based on the irs guidelines and ask me a mention you know they're pretty pretty specific and easy to identify um you know where where they would fall in whether it's on the 10.

99 or a contractor i guess 1099 or an employee w2 line um the effects that it have on your business i mean besides typically you have like a payroll server set where that runs your payroll for there'll be two employees and you may not have that for 1099 employees so that might be an additional cost that you would have associated with the w-2 employees and then come here hinted at the the self-employment tax or the fica tax so you know if you have an employee you're responsible for for half of that social security and medicare whereas if

they're at 1099 uh they they pay that with their self-employment tax on their own tax returns so you know there are additional costs obviously for for having a w-2 employee um but it really has that whether they're w2 or 1089 really has really depends on their relationship with you and and the sort of direction and the sort of things that you provide for them wonderful okay so there's a question um about quarterly taxes and kamiyah i see that you're um answering this one so uh am i okay to move ahead past that one

it might be a good idea to answer your life yeah okay i was just gonna say you know quarterly taxes are really uh and when you say quarterly taxes i'm assuming you mean estimated quarterly taxes um they're necessary or it generates once you have a oh more than a thousand dollars in the prior year and so most people um most people pay taxes based on their personal tax situation even if you are a partnership or s corporation or llc you're paying taxes based on what happens with your personal returns because those are flow-through entities

um so when that's the case you have to pay attention to how much you're owing um as a person as an individual and so if you stand o more than that then that's what when the irs expects you to go ahead and make payments early on your for your next year and so you have to pay at least 90 to 100 of what was due last year and so usually what happens is um in the year when you file and you owe more than that um your preparer or your pro or yourself you know if you're using a do-it-yourself tax software or

something like that it will generate and kick out the tax estimated tax vouchers for the upcoming year and that's what you have to would have to pay that's how you can tell um now there are times when you know you if you know that you owe because you're looking at your quarterly uh you know you're speaking with your bookkeeper or your accountant or whoever are you looking at it yourself and you can see that you have a profit so you know that you probably will need to make a payment on this you can do that if you

want to and that would be just kind of doing an estimate of what you think you may owe based on um what what your um tax bracket is but we usually do like a basic thing or maybe like i want to say 30 especially if you're like llc's or sole proprietorships to make sure that all the taxes are taken care of now if you're a corporation a c corporation it's slightly different um those those things are slightly different but you still would have to pay anything else mark because i'm just making sure because i have some time no

you're you're perfect um as to like the specific question are they mandatory no technically yeah the irs wants you to pay estimates um in reality if you don't pay estimates you probably will and you're and you're supposed to you're probably going to pay you know a minimal amount of of underpayment fees when you when your taxes do the the the penalty is a half a percent per year so it's divided by months so it's really really a small penalty if you choose not to make your payments

you're not going to go to jail or get in trouble or you know anything if you don't make your estimated payments you just might have a penalty at the end of the year great okay the next question is from monica so besides saving for retirement in what other ways does contributing to an sep ira benefit the taxes of a small business owner sure i can take the lead on this one um so i mean the the biggest direct benefit assuming that it's a legitimate deductible contribution would be that you get to reduce your taxable income um

you know dollar for dollar by what you contribute you know the steps are typically you're able to contribute 25 of whatever your net profit internet taxable profit would be for like a schedule c so you know if you have a hundred thousand dollars in profit you can contribute 25 000 to a sep and that takes off 25 000 from your taxable income so you're saving whatever your tax rate is times you know 25 000 so you know they can be a significant source of of tax savings you know in the in the year that you make the contributions

great thank you okay next question is from mark how do you deduct medicare payments from your business i'm already speaking of medicare insurance payments uh if this if that is the case and if they're self-employed then i'm assuming that they're uh these are health insurance payments that they're paying you do that um as an adjustment uh to your uh uh total income on um schedule one uh it'll come out on your schedule one once filed and so that deducts um from your total income to arrive at your

adjusted gross income and that's the adjusted gross income eventually is how they charge um how they uh figure out how much you owe for taxes so that's how you save you wouldn't really see that on uh your schedule c if you're self-employed um you would definitely see that on a schedule one i'm not exactly sure i would have to pull up what line it is but it would be under adjustments on the um on the actual 1040 is where you would see that deducted uh did that answer your question or or am i thinking of something different if

not um please put it in a q a and we'll answer it um more thoroughly yeah like communication i mean it's it's not a business expense for like a schedule c um yeah you know it might be different for a partnership or for an s corporation um the way that you treat it but for like a schedule c it would it would wouldn't go on the schedule c as an expense or deduction it would be a deduction elsewhere because it's like an individual type of deduction on your tax return for a self-employed individual

great yeah and mark you can let us know in the chat if uh we didn't quite answer your question um but i think uh hopefully that was helpful for you uh the next question we'll move on is from nicole for a soul member llc are there any tax advantages to making myself an employee of the llc or another instance would be employing her husband um well if you have a llc and i'm and i'm assuming it's a single member llc you're the only person who owns the business then you wouldn't really be able to pay yourself

or make yourself an employee um those typically are treated like sole proprietorships in that you're just the owner and then you would take draws when you need to get paid money um and so it will go against the equity um that you have in your business or whatever so you wouldn't ever really make yourself an employee but you can pay yourself in draws now you can employ your husband as an as a um as a uh actual employee and a lot i've seen a lot of people do that and there may be a benefit you know for example if

you know you guys have health insurances there are things you can do in that case to save money um i've seen where um you know it could help uh when you're trying to show income in the terms of buying a home or things like that then if they have their uh monies on a joint tax return that way um yeah so i mean it could benefit to if your husband is actually you know have active work in your business if he's actually doing a job in your business i i could say would say that that um would be something that um would be

helpful or yeah the irs really emphasizes that they need to whether it's a husband or a family employee anyone that's not like an arms-length employee that they they need to actually be doing you know the work can be you know if they're hourly clock in and out um you know if what if you're paying them a fixed salary or something like that you know having some justification for what you're paying them because you know they don't want yeah you know your three-year-old to be you know sweeping in the corner and getting paid

you know 50 bucks an hour or something like that right it needs to be a legitimate you know employment and and then you actually you know you hire them you you go through the hiring or the you know the setting up of an employee process but there's certainly areas for tax savings by doing that like you mentioned with insurance and you know for for other reasons show like showing w-2 income for first of all it's just something like that paying some you know social security tax yeah it really depends on on your type of

situation there um you know yeah for the first part of the question like you said you know as a single member llc if you're a discarded entity so a schedule c you really you you can't be on w-2 wage for yourself um the way to do that would be to make an s-corp election and become an assets corporation and then you're you're able to put yourself on pay or actually required to put yourself on payroll but um just as a schedule c you know take draws like i said you know you're if if you are paying yourself through w-2

you're likely going to be you know outlaying more costs and more tax than you would if you just took draws because there would be some you know expense for for payroll taxes and that sort of stuff where you wouldn't have that necessarily if you were just taking draws from your llc great all right and it looks like nicole said thank you so i think you've answered her question um wonderful okay next question is from pera hello what is the best plan to maximize retirement contributions for an s corp that

only has an owner as an employee and then they've added a clarifying point uh i have an s corp and i'm the only employee and i would like to put aside the maximum amount possible in a retirement account sure i mean i believe in comedic correction if i'm wrong i believe you can still do a sep as a you know a s-corp shareholder um steps are great you can contribute a whole bunch of money i think the the maximum is you know right around sixty thousand dollars um you know you have to have a lot of profit to back that up

in order to get that because it has you know starts to fall within that 25 um of the profit is the maximum you can contribute alternatively you can set up like a 401k through your payable payroll provider or someone else where you're doing um you know just as if you worked somewhere else you were doing salary deferral to a 401k or it could be a roth where you don't do the the deferral and you know that depends on your situation too whether you're going to pay more tax now or in retirement but uh to maximize contributions i guess you

could you know i think you can set aside to the maximum which depends on if you're over 50 or not um i would have to look up the the limits i don't know them right off hand i have them here actually because i we get this sure quickly um so it's 25 of your wages so you can only do now for 2020 to 61 000 um or 25 of your wages so it's the max is the maximum right and that's similar to the solar 401 k that you can do uh simple iras uh the maximum employee contribution is 14 000 or 17 050 or older

and then um plus either a matching contribution of three percent of your employee of your employee deferral so three percent of whatever you are contributing as an employee um and yeah those are really the basic three options the main three options that um you could do i mean of course it could be a roth you know it could be you know if needed as well you know and so if you happen to have a w-2 job outside of your your business to um the retirement the the limits are per employee employer per program so you can

you know max one and also contribute to the other um separately great thank you both uh there is a related question here um which i think might be a have a quick answer but the question is can an llc open a sep um except ira so an llc can be a number of entities right so like an llc that's a c corp probably cannot open us up but um just about any other iteration of an llc i believe would right like a single member which is a sole prop could a partnership i believe can um s corporation i i believe can as well

okay perfect uh and um uh potentially who uh the the question was submit anonymously but if you're um interested to get a more detailed answer please um submit your filing type in the chat and we can answer that um more accurately okay um let's move on to the next question from curtis does a dc resident working for a maryland company have both d.

c and maryland personal income taxes withheld that depends possibly yeah yeah okay i'll take yeah i'll take this one you can do that next time that depends on where you're working um you know if you're living and working in dc typically it should only be you know the the dc taxes but if your company is withholding maryland probably talk to the hr department and be like i'm not working in maryland so please quit withholding maryland um but you can always file and get get those refunded to you but um

you know so if you're it doesn't necessarily matter where the company is located it matters where you're working is that the understanding that you have commune yes and then sometimes uh certain states have reciprocal state um things that they have together so if that's the case um you could file and they they have a uh working relationship as far as taxes and personal taxes are concerned and so sometimes you may have a requirement in one state and not the other because of that or um other states have credits like he was

just saying you can apply for and get a refund on the other um return based on what you've already paid in one state if if they've taken it out of your w-2 and i guess relating to this question to it if you're living in dc but working in maryland you're likely going to have withholding from well probably only maryland withholding at that point and then um you know you would get an out of state tax credit for for d.

c okay great um so there's another question uh from nicole and this is actually a follow-up question about uh quarterly estimates so she says if my own personal family income taxes um that we owed were greater than a thousand dollars then i need to file estimated quarterly taxes on my single member llc um and that's the question so she's wondering um if her personal family income taxes that she owed were greater than a thousand dollars she's wondering if she needs to file estimated quarterlys for her single member llc and the

thousand dollars isn't based on the llc earnings but it's actually just the personal income of her family okay well assuming that it's a single member llc um they are kind of like a disregarded entity meaning that they're going to follow on a schedule c and that is with your personal return and so it becomes part of your personal income you know if you're filing joint yourself and your husband's income is on that is all going to be on that same tax return and so all of it collectively if you owe

more than a thousand then yes um it would be i mean i can see how you know if it's the only thing on there then it would be just your llc but like if a person has a w-2 then they have a business and they may have a rental property then they may have you know some investments all of those things together is what um the irs looks at and they're calculated together and if that's more than a thousand dollars then yes it would be now if you wanted to see well how much of that does my llc actually owe you know like

for instance w2 money usually it's already deducted you know it's that money is are probably already being handled in for federal withholdings from the employer um if it's some other things then maybe not but i mean you could probably deduce if you only have a w-2 and an llc on your business that whatever you owe would be the llc i mean it really would depend really this is something that you would probably need to have a call on just to see because there's a lot of factors that go into this we wouldn't be able to even

um really speak on this without knowing the whole tech situation because there's a lot of different things that could change this yeah that's what i was going to say is there's a lot of moving parts in a personal return like this um you know you're you could have a very profitable schedule c make you know 50 grand on it but if you have a capital loss for for example that could offset part of that or you know maybe have a big rental loss that offsets part of that you know i know there's different

categories of income but there could be other things on your return that offset you know whatever income that you have for your llc that all of a sudden maybe you don't know a thousand dollars at that point so or or maybe you're over withheld on your w2 your spouse's w2 wages or something like that where you know it would cover whatever tax comes up from the from the single member llc so there there's a lot of moving parts and it depends on your entire personal situation so you know if you're if

you're under withheld by you know a thousand dollars with just w2 wages i mean you're still required to make estimated right not required but you're supposed to be making as many payments there so it's not even really tied to the business at all it's your entire personal tax situation that's taken into account okay great thank you so we've just got one minute left so unfortunately we'll have to um uh we won't be able to get to the remaining questions here but i'm um sharing a link in the chat and so uh

bench actually offers another free service uh where if you have a question that you didn't get answered today um you know we we recommend if you're able to join us again next week we run this um live q a every tuesday at the same time but in the chat i've shared a link where you can actually submit your questions and receive your answers back by email so you won't have to wait a week if you really wanted to get your answers sooner than that but otherwise i would like to say thank you everyone so much for your questions

today and we really hope that you found our tax advisory services helpful uh if you think that this type of support is something that your business would benefit from on a larger scale you can actually give bench a test run with a free trial uh so we offer a no commitment free trial where we complete a prior month of your bookkeeping uh 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 bookkeeping and tax needs before you make a decision and

so lastly 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 uh we'd love to meet them and see how we can help them alright thank you again everyone for joining us today and we hope you enjoy the rest of your day bye you