1. Tax Advisory Tuesday Q & A | August 9th 2022 - YouTube

<https://www.youtube.com/watch?v=kvM6l3Vd69M>

Transcript:

all right hello everyone it's tax advisory tuesday and we're excited to welcome you to ask a tax advisor our live q a where we'll be talking about small business income taxes some very quick housekeeping for today's session uh it is being recorded and the recording will be shared with you later today by email and that's the email address that you use to register for uh this session today uh feel free to use the chat feature um just make sure to change the settings to panelists and attendees and

that's just so that everyone can see your comments with that said uh just be mindful when you're sharing any personal or financial information because this is being recorded and the recording will be shared publicly so uh just make sure that any information you're sharing you're comfortable sharing publicly and lastly we'll be taking questions via the q a feature at the bottom of your screen on a first come first first serve basis so uh submit your questions now uh via that q a button and then um we'll uh

we'll dig into those questions as they come in so let me introduce myself my name is alison i work here at bench on the content team developing all kinds of helpful resources and guides for small businesses which you can find on the bench blog and that is at bench.co forward slash blog so um 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 goes even beyond the scope of your books our bench bookkeepers are supported by our client research team uh who are able to provide you with informed answers to complex business questions so bench can really support you in running your business even beyond the scope of your bookkeeping and taxes so what does bookkeeping look like at bench so 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 month over month uh if your bookkeeper ever needs anything from you they get in touch but if you ever have a question for them you can easily book a call directly with them or use our in-app messaging feature then at tax time we prepare a year-end financial package and you can use this to send to your accountant if they're the one filing your taxes for you or if you file your own taxes you can use this package as it contains everything you

need to file but if filing your taxes is not one of your favorite tasks of running your business then we can also take that off your plate and file your taxes for you so uh how does tax support work here at bench our tax services actually includes a whole team of tax experts who 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 two of which i've got on the call with me today um so with that our tax support isn't just limited to tax time uh our tax filing

the tax filing deadlines our tax advisors like mark and kameha who are here with me today are on hand year-round for an unlimited number of tax consultations and so what is unlimited tax advisory when you're a bench client you can book an unlimited number of calls with our tax advisors there is no limit uh um these calls will typically last anywhere uh let's say up to an hour and during that time uh 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 they'll also educate you on methods to reduce your future income taxes and this is really valuable because your income taxes is probably one of your businesses largest expenses and so reducing that is um is is is fantastic it's great value and again this service is available to you at any time of the year it's not just a tax time so let's go ahead and meet our tax advisors uh so we've got mark and kameha

joining us today uh mark why don't you go ahead and introduce yourself first sure as you know my name is mark um i'm a cpa i'm from wisconsin um i've been a tax advisor here at bench excuse me for about a year and a half um i've been a cpa for eight or nine years now um that's about it hi come here yes hi hi everyone uh camilla franklin i'm an enrolled agent out of michigan uh in the u.

s uh just let me just take a minute i always like to explain what an enrolled agent is because an enroll agent is sort of something that you don't hear about a lot um an enroll agent is a credentialed tax practitioner that is authorized by the irs to be able to represent taxpayers in the u.s on their tax matters we can do tax advisory and things like that as well uh similar to a cpa um the irs is who gives us our designation and so we are authorized to practice over 50 states cpas are basically you know designated through their state so

they are more broader whereas cpas can do audits they can do attestation things like that uh enroll agents really are specialized in the tax area and so um i've been in the accounting and tax industry for the last 15 years i've worked for bench um this is around the same amount of time is mark maybe a year and a half or so so it's nice to see you guys again and looking forward to hearing your questions on your phone thank you both okay so uh why don't we get into what we're all here for uh getting some uh income

tax advice so uh please go ahead now and submit your questions via the q a button that's at the bottom of your screen uh and we'll just wait for those to uh come in and then we'll answer the questions as they come in on a first come first serve basis so again the q a button is just at the very bottom panel of your zoom screen and you can input your questions there and then i will be able to answer them um all right so it looks like um thanks for your question brian um and again um if anyone is having trouble

finding the q a button um please let me know in the chat here um so we don't have any questions submit yet um but brian you did submit your question via the chat so we can answer that one uh just while we're waiting for other questions to come in so the question is how should i distinguish whether being taxed as an sm llc or an s corp um um mark or kamiya feel free to jump in yeah why don't you go ahead [Music] sure okay well um it depends on what uh forms you have actually completed okay so if you're a

uh business but maybe you have you know either done it through a online partner or maybe you did it yourself through a state um your state so you you would do organization paperwork that then in itself um assuming you just did that would be just an llc um if it's one person then it would be a single member llc if it's more than one person then it would be a multi-member llc so you distinguish it um being an s corp is actually like an extra step you don't actually create an s corporation like you would

an llc or a corporation uh c corporation you have to file a form um you have to actually file a form as form 2553 that tells the irs that you like to be taxed as an s corporation because an s corporation is actually a election um versus a entity um any you know an llc and a corporation can be an s corporation so if you have not done that extra step following that form or someone has not done it for you or if you used an online entity and i keep saying online web partner because i know a lot of people may use something like a rocket lawyer

or some other type of online thing where they're just sitting in the documents and you may not know what they filed for you um if you look through that paperwork and they have not given or submitted a 25.53 and you haven't received anything from the irs to indicate that you have been approved for the s corporation election maybe nine times out of ten aren't the s corporation um would you um agree mark yeah no that that's a absolutely perfect summary of how you know whether you're in a scope or not um if

the question was more about um you know what make when it makes sense to be an s corporation versus like a sole prop um you know that's a discussion we have with our clients all the time um it really depends on a whole bunch of other factors there's not really just one factor but you know i i typically tell people you know once you get close to a hundred thousand dollars or so in in profit on your schedule c it really starts to make sense to to make that escort election um because you know you're not gonna save any tax

if you're not making any profit um but once you get to that hundred thousand dollar limit or a hundred thousand dollar you know threshold that's when you can fit in what's called a reasonable wage you know so you're paying yourself um and you it's an expense to the business so you have profit left over after your reasonable wage which comes at you at uh at a lower tax rate and that's that's you know kind of the whole reason for doing that scorp and that's what i typically tell my clients is is a good

you know a good threshold to think about is well maybe even lower maybe like 75 to 100k is really where it makes it makes a lot of sense to make that decision and and continuing profits going forward obviously too is a is a big factor thank you both okay we've got another question from michael um so i received a cp 2000 a few days ago uh it is correct if i file an amended return will that eliminate the penalty uh and so they are a self-employed sole proprietorship sure i can take that one so it i mean you really got to follow the

uh the instructions on the cp2000 sometimes it says do not send an amended return um specifically you know sometimes you you if you agree with you know whatever change they they have there then you know you pay whatever the increase or the the or wait for your refund i suppose to decrease but that doesn't happen very often um you know it really kind of depends on the situation what's missing or what the irs thinks is missing from your return and whether that's you know correct or not if it's you know so obviously in your

situation you think it's correct but if it's incorrect you know then you have to provide the backup to you know be a while why this is incorrect or or you know whatever the the reason might be um i don't know come here do you i think the most of the ones i've seen say don't don't file on amended return but but maybe i'm thinking wrong there i i think what you should do and um what you should do is respond to the cp 2000 even if you want to do an amendment you should follow the directions on that

particular letter like it's usually like a five page letter that has specific directions sometimes they may or may not um tell you to respond but if they do say if you agree you know they have three things do you agree do you not agree please respond to the notice because the thing of it is if you decide to amend and you mail something in the irs is still kind of behind on their processing of paper documents and if they don't get it and you didn't respond to the letter in a timely manner you know it just moves on

um in the legal process you know because the irs has a legal process they have to follow so if you definitely want to respond or call whoever is assigned on the letter that's a better uh way to respond to that and then if you want to have an amendment or tell them you want to admit they'll let you know if you need to that's what i would do yeah for sure the response i think typically you have 30 days from when they send a letter to respond so it's obviously important to do that um so it doesn't like like me said doesn't move

on to whatever the next irs step is you know but right getting more and more penalties obviously and that sort of stuff but um yeah i think you can respond being like i'm going to amend my return and typically they'll be like okay well you know go ahead and do that but it really depends on the situation i think right right all right next question is from alicia is it better to pay estimated taxes throughout the year or just wait and make one payment at tax time um well i mean it depends i hate to keep saying

it depends but i mean generally if you have an estimated tax requirement which in general um for people who um are you know llc's as corporations um people who have a full through entity um if you owe more than a thousand dollars and a flow through entity means that you're gonna just you can pay tax on your person with your personal return if you owe more than one thousand dollars in the prior year then that generates the requirement for you to make an estimated tax payment okay if that's the case then the irs is

expecting you to pay quarterly estimated payments at a cert by a certain date you know what i mean by those dates that they have pre done you know uh what is it april 15th this is september 15th march um the quarterly dates um if if it doesn't happen for some reason um i have seen where you know all is well and you don't get an extra penalty but they have the right to you know if you didn't pay your estimated tax on time you know then they have another way to calculate your estimated tax um at the time when you're filing your tax return

which can mitigate that if you um have a a a company that is seasonal or you know that your money comes in a little different than um it being and you and you have trouble paying it um in that time period so i would suggest if you do have an estimated tax um requirement to pay it and when it's due but you can you know it's not the it's not the end of the world like if you can only pay it at the at that time i would pay it uh you want but if you can pay it one time yeah what what i typically tell the client or talk to clients about in this

situation is you know do you want to keep that cash in your pocket or do you want to pay it and have less to oh at the end of the year the penalties for not paying your your estimated payments are are generally very small it's a half a percent per month you know which is prorated for the year so it's it's not like you're going to have a penalty that's higher or equal to or even close to you know what your tax bill is so you know if like me said if you if you can't if you don't have the

cash to do that right now i mean don't don't stress yourself you know you might have a penalty at the end of the year um you know know that you have tax coming at the end of the year but you know the penalties are generally pretty soft for not paying the estimates um but you know they're there too so you know a dollar is a dollar and it's different for every every different business owner every different individual whether they you know want to eat those penalties and hold on to their cash because maybe you

know that cash is making more money in their own investments um then it would be you know with that half a percent penalty from the irs it's really a decision based on you know the the circumstances of of your business and your your personal tax situation right and uh our next question is very closely related from katie uh so uh you can let me know either of you if you have something to add but katie's asking how can we more effectively pay estimated taxes throughout the year so we don't get hit with a huge bill at tax

time oh you can definitely pay it you know we aren't saying you know not to pay it definitely if you're like for instance if you were um working with a tax advisor here uh we like to talk to our people quarterly so that's something that we probably would be looking at what your net profit is so like if you have net profit every quarter you can see what that profit is for that quarter and let's just say you don't have estimated tax requirement but you just want to make sure you're paying so

you're not you know hit with that hefty bill in um april or march when it's time to file you know and so um you would take your quarterly amount and just do an estimate i mean generally i mean mark you can tell me um if you have a different perspective but i started like 30 um as a as a baseline if you want to just withhold 30 or send that in because that encapsulates the 15.

3 self-employment tax for people that are llc's or partners you know and then um it also gives a decent rate to go by you know the rest fifteen percent for you know what you would have for your ordinary or um you know you tax you would owe personally on that profit so um that that's what we usually that's what i that's what i usually suggest yeah i completely agree um you know the irs is always going to accept your payments so you know if you don't want to have that bill at the end of the year

send it in during the year um yeah 30 is typically what i i tell people excuse me tell people as well um it for a for a sole prop for a schedule c you know it's a little bit different if it's um obviously if a partnership you got to figure that out if it's an s corporation there's a little bit more you know moving parts because you're paying yourself a wage and you have some withholding there um so it depends on you know what your income is going to be at the end of the year you know and then

it's it doesn't have the self-employment tax on it from that from the s corporation but um i i guess the the easy answer this question is you know figure out what you might owe you know divide it by four and send it in at the at the estimated payment dates um you know and uh like can you said too that's something that you know we can help with we we talk with our clients all the time um have these conversations and help them come up with estimates and you know i don't know if either of us mentioned but you can also you know pay

what you owed the prior year 100 of what you owed the prior year in tax and you won't get any penalties for the current year so now you might still have tax out at the end of the current year but you wouldn't have any underpayment penalties if you pay 100 of what you owed last year um so you know assuming your business is going to be similar um to the prior year you can you can you know take what you would last year divided by four and that's a simple way to you know figure out what it might be right thanks

okay um next question is from merritt uh i have a dog training and boarding business i operate in a separate building on my personal property the utilities are on my total property would you recommend i charge my business a rent equal to the utility percentages i estimate or use the process of deducting utility percentages mia really likes the dog tunnel businesses i'll let her take this one this sounds really really familiar is this someone i already know no um um can you repeat it one more time for sure thank you so yep so i have a dog

training and boarding business i operate in a separate building on my personal property the utilities are on my total property would you recommend i charge my business a rent equal to the utility percentages that this person is estimating or should they use a process of deducting utility percentages uh well first it depends on the entity um if let's just say this is a single member llc and this is operating separately and so we're talking about the home office deduction or something similar um you can just use the percentage that the

building that that has you know used so i don't know how they could um you know i guess you could do the square footage of the uh all the buildings together um you know the home and then the separate building add that together and get a total square footage and then um total up the utilities and then find out what the ratio is um for the building so like if you're talking about five thousand square feet and the building is two thousand square feet five thousand divided by two thousand whatever that percentage is

um that's how much you would get in the utilities uh for and that's how much you would claim for um if if it's all if it's just on one bill um that's the best way the bottom line is to make sure that you're not deducting your you know personal portion your home portion because that that's where you can run into trouble um yeah you know it like can you said it really depends on the entity type whether you're actually making you know reimbursements to the company you know if it's a

scorpio partnership or if you know or c corp i suppose um or if it's a sole prop you know you can kind of just take that as the home office expense i mean you don't need to necessarily make the reimbursements so it really depends on the entity type and you know if you want to maybe let us know we can elaborate on that a little bit too a little bit later i mean speaking of partnerships um you know it's important to have whatever you um need or want to happen in regards to the personal property operating agreement so that way it gives

us uh the person you know the irs wants to make sure and be able to break apart personal versus business you know with partners because there's more people all partners have to agree that this is something that they want to do you know what i mean and so if that's not there then it presents an issue um bookkeeping wise being able to determine if this is something that can actually be deducted sorry merit has um said that they're in s court but that would be the filing type so uh i think we still need to know

what the business entities type is yeah to businesses well okay so if it's an s corp you know if you you need to be reimbursing those expenses according to an accountable plan um which is something that the irs you know prescribes for taking those kind of home office expenses for an s corp you have to have what's called an accountable plan in place um that basically is a policy setting up what these reimbursable expenses are um for for the shareholders and you know that kind of takes the place of the the partnership agreement

in the partnership case that camille was talking about you know having it first of all be irs compliant which is you know something that you would talk to a tax advisor talk to your tax professional about but that it you know it spells out what and how much can be reimbursed of those you know the percentage of the utilities and typically it's based on probably the the area of the the kennel versus the area of the rest of the house i would imagine right command right and so if you're speaking about the rent because she i heard the

you know i kind of missed that part earlier you could rent um like the the the s corporation could rent that kennel um out to the business at a rate i mean only thing that um i would say in that case is that it needs to have a market rate you know for your um for your area for your for your city or state wherever it is you know based on the going rate how much would a person rent that if it was not on your property you know how that's what you would like first start at you know how much would you have to pay if you had to get a

kennel somewhere else um that's off your property in the same area um and definitely still needs to you know have some type of paperwork behind it you know that shows that this is something that this corporation is you know formally doing um for sure the accountable plan has to have a base as to why you're you know reimbursing this to the the uh shareholder you know as far as um reimbursing for the utilities you know pursuant to the accountable plan the amounts you know and the accountable plan um should have that laid out you know and

then have the expenses by month there you know to be to if it's rent there should be like a rent a lease agreement right um between the between the s corporation and whoever owns the property and those those type of items should be you know prescribed in that that rental agreement um and make sure you pick up that rental income on your personal return too because you can't just take the expense without you know picking up the income on the personal side right because the augusta rule is only for up to 14 days just in case somebody

was getting ready to ask about that that's that's 14 days you can rent your home or you know kennel well and that would only be in a you know like a residential situation anyways in a commercial situation like this right so i'm just saying that i i felt that might have been something second larry asked though okay great ah all right we'll get to another question here from david uh so this question is uh in regards to new york city specifically so is there any amount of yearly profit where being a c corp makes more

financial sense than being an s-corp or are the benefits purely with regard to outside investment sure and that's why you know when we're talking about s corp it really makes sense to you know knowing know your entire situation know where you live and you know what sort of you know business you're in to um new york's a high new york city specifically a high cost of living place so a reasonable wage for someone living in new york city is considerably higher than a reasonable wage for someone living in you know wisconsin where i

live um so the irs does you know take that into account when they're you know auditing those those reasonable wages no audits don't happen very often but you know that's what we're we're here to protect you from um so you know maybe that threshold is higher for someone in new york city although you know the tax is going to be higher too so you're going to get more savings even from you know a marginal amount of income um because you're paying you know a high state tax rate and and also local taxes

um you know so maybe it evens out a little bit but you know your salary probably has to be higher to fit into the reasonableness from the irs so the the threshold is probably higher than it would be in in any random other place great all right um and so with that i think uh we will um uh we'll wrap up questions uh i want to thank everyone uh for submitting your questions a few of you have submitted multiple questions and i do apologize that we've run out of time to get to them but i hope that you found

all of these answers helpful again so if you found this type of support uh you know helpful and think that it would be uh you know something that your business could benefit from on an even larger scale imagine having a whole full dedicated hour with uh mark or kamea as can i mention you know up to four times a year think about how helpful that could be for your business uh you can actually give bench a test run with a free trial so we offer a no commitment trial where we complete a a prior month of your bookkeeping within just one

business day and then after um that trial will give you a set of financial statements to keep uh and so you know as opposed to having a 14 day or 30 day trial um you know completing a trial with bench really quick allows you to just you know get a quick sense of whether bench is going to be the right solution for your business uh 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 uh getting some of their income tax questions

answered we'd love to meet them and see how we can help so thank you everyone again for joining us and we hope you enjoy the rest of your day thank you all very much thanks for the questions