1. Tax Advisory Tuesday Q & A | August 2, 2022 - YouTube

<https://www.youtube.com/watch?v=9_YRn38Q14g>

Transcript:

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 i have just a couple quick housekeeping notes for today's session it is being recorded and the recording will be shared with you later today uh through the email that you use to register for today's session so if you want to check back and review uh what was discussed today you can certainly uh go back and rewatch the recording that will be emailed to you

uh feel free to use the chat feature here in zoom but just make sure to change the chat settings to panelists and attendees and that's just so that everyone can see your comments uh otherwise um just as hosts will be able to see your comments but also keep in mind when you're using the chat um try not to share any kind of personal or financial information that you wouldn't want shared publicly in a video recording and lastly we'll be taking questions via the q a feature at the bottom of your zoom screen on a first come first serve

basis so please submit your questions via this the q a button and not the chat uh i'll go ahead now and introduce myself my name is allison i work here at bench on the content team developing all kinds of helpful resources for small businesses that includes guides templates blogs and you can find all of those on the bench blog which is bench.

co forward slash blog but what is bench for those of you who are not in the know let me introduce what benches 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 or 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 we really provide a full suite of support for helping you run your small business so what does bookkeeping look like here at bench every month your bench bookkeeper organizes your business transactions and prepares financial statements this makes it easy to stay on top of your finances and also track the health of your business as you progress month to month if your bookkeeper ever needs anything from you they will get in touch but if you ever have a question you can easily

book a call with them then at tax time we prepare a year-end financial package and you can use this package to send you can send this package directly to your accountant if they're the one that files your taxes for you or you can use this package to file your own taxes but in the event that filing your own taxes is not your favorite task which i'm sure is the case for many we can also take tax filing off of your plate as well and so what does tax support look like here at bench our tax services include a

whole team of tax experts who work with you and your bookkeeper to get you filed ahead of the deadline so that includes a tax coordinator a tax preparer and a tax advisor who we're going to meet one today in the session but this tax support isn't just limited to tax time our tax advisors like kamea who's joining me here today are on hand to support your business year-round for uh unlimited amount of support 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 these calls you know typically they can last anywhere up to an hour let's say um and during this time our tax advisors will take the time to familiarize themselves with your finances um answer any questions that you have and offer valuable advice that's tailored specifically to your business they'll educate you on methods to reduce your future income taxes and this is for many businesses i think possibly the largest expense that your business has so really beneficial to get those reduced as much as you can

and again this service is available year round not just during tax season or at the tax deadlines so let's go ahead and meet one of our tax advisors i've got kamehameha joining me today so camilla why don't you go ahead and introduce yourself wonderful thank you so much good afternoon everyone my name is kamiyah franklin i am an enrolled agent um out of detroit michigan i work directly with bench in the tax advisory department i've been here uh just over a year when they wrote out this new startup department to

support the bookkeeping um flagship uh business that bench has so um let me just explain a little bit about what an enrolled agent is what have you um similar to a cpa and enroll agent is designated by the irs and so we're authorized to do similar things such as the cpa would do by the irs we had to take a three-part test such as the cpa take the test so we're very similar to a cpa um i am a subject medic matter expert and i've been in the accounting industry providing tax compliance tax resolution bookkeeping and virtual

cfo services for the last 13 years and i'm just glad to be here wonderful thank you come here and thank you very much for that explanation seven-year-old agent i know um that was when i joined bench that certainly was a term i wasn't familiar with and i'm sure those on the call today are the same so thank you so much oh all right um okay so let's get into what we're all here for i'm getting some income tax advice uh so if you haven't already please submit your questions via the q a

button at the bottom of your zoom screen um and that's where i will be uh grabbing the questions now and um uh let me just see we've got a couple questions okay so um we've got a question from uh rhea or ray um hi i have a question about filing taxes for the first time for my uh boyfriend's business he has a trucking business and got his cdl last year which he financed through a creditor um he has never filed taxes before and doesn't have revenue as of yet but he's wondering if he's still able to write

off the expense of the cdl even though he's still making payments of the certification um hopes i hope this makes sense um so i'm i'm not sure command if you are familiar with what a cdl is i i'm not and maybe ray you could just um drop in the chat i believe uh what ria means is the license that you have to get with the secretary of state to be able to drive trucks uh commercially uh so that's a license you get sort of like a driver's license but it's more expanded related to trucking but um i mean in general um

when you talk about being pre-revenue uh usually people and this is for all businesses now it it does make a difference whether he's operating as a sole proprietorship or if he's operating as an llc partnership corporation or c corporation but in general um there has to be um something that he would identify as when he starts the business or when he's actively doing the business so if he starts to actively do the business and do his trucking business that's when you can start taking out and claiming the expenses even though

you may or may not have income so if he has not decided to actively be in the business any expenses that occur prior to that would be considered startup expenses and startup expenses sometimes have to be capitalized over a five-year period or you can choose to claim the expenses the first year year in business so first that's what needs to happen um these are the type of things that we would speak about more in depth on a tax advisory call if we were if you know if they were clients of bench we would help them decide that

but you know in general yes you can claim it it just depends on what year depending on when you start your business actually declare it as uh you know starting up prior to that it will be considered a startup expense which is deductible uh definitely uh if not over the five-year period over one period hope that answered your question thank you all right um okay we have another question uh from an anonymous attendee hi we are a u.

s based consulting company we are looking to take on a client in london um that would be london in the uk who will be paying us in british pounds uh we will use a subcontractor in london who we will pay in pounds what are some good resources for us to research and manage the situation with banking foreign exchange taxes etcetera um yeah now kamiya you you may not know about the banking but maybe you have some insights um in terms of taxes with right tax-wise um i mean we do have a couple of people that uh handle um

you know our international but in general we mostly handle uh state united states based tax um this is you know this is the extent of our scope however um i do understand um that if you're paying a subcontractor you definitely want to talk and look into london's um you know governmental website and they have a lot of information as to what the tax laws are um that is something that we would discuss but we don't discuss that in a lot of detail um and and paying in u.

s uh you know gbp um i don't know a lot about that um but i would definitely first go to that london um government website the uk website um and you know they'll have an explanation of how they're taxed you know exchange rates different things like that that's what i would say okay wonderful thank you all right and i'm just gonna mark these ones okay um all right so we have another question from nelson uh if you are an s corp and took both salary with w2 money and a draw and then also saved separately in a

company savings account are all uh those three then um income to you that makes sense okay well the salary is definitely personal income to you uh the draw which i'm con i'm assuming you mean the distributions because uh when you're s corporation uh things that you take outside of w-2 would be considered distributions those are also income but you won't claim that you know as a separate line item it will actually be part of the net profit that's that's where you would see the uh distribution

income being taxed at um that which is also flow through to your personal return so um it's kind of like absorbed into the net profit so if there is a net profit that's where you pay the tax on now the first the company savings if you're putting company business money in there in a savings account said no that would not be income if it's a business savings account if you are like taking the money out and then putting it into your personal savings account uh then that would be considered a distribution on your books and then that

would be um tax you know like i said previously based on the profit so you won't actually see the draw you know on a line item for income or as a w-2 you would just pay the profit because uh those corporations are flow through entities that are taxed at your personal weight so i hope that answered your question if not you can send me a note when i'll answer perfect all right thank you and ray's just let me know that the chat is disabled which um i apologize everyone um i will have to look into that but uh for

now i guess just keep um submitting via the q a um this is working well um and so okay let's move on to the next question we've got one from sonya how much of income should we set aside for federal taxes and for state taxes that's a great question uh we actually get asked that quite a lot here at bench yeah that is so true um as a general rule i want to say uh set aside 30 federally and roughly maybe 15 percent statewide each state has a different tax rate so uh if you're a sole proprietorship partnership

s corporation um you're going to be taxed at your personal rate and so as a general rule just to make sure you have enough uh we say 30 because um if you're a sole proprietorship partnership you may have self-employment tax that starts at 15 you know it's 15.3 and then you will pay tax on ordinary income at your tax rate so 30 kind of encapsulates that now it may or may it may need to be less it may need to be more um but that's a general rule um states uh if you're a business um you not only have to pay for states

that have tax but there are some other states that you don't have to pay tax you know because they don't have a tax but if they do um you have to pay taxes if you're a sole proprietorship partnership for extra corporation personally and then you also have a business requirement to pay tax uh like a convenience tax of franchise tax things like that so that uh rate for instance california uh for llc's is eight hundred dollars so you would set aside the 800 to pay that so it just you know states really vary

so um these are the type of things that we sometimes need more information on and that's what we talk about in tax advisory calls so that we can look at your personal situation and be able to give you a more accurate number but 30 is a good start now if you a c corporation um as of now and until the uh government governmental bodies change the rate c corporations are taxed at 21 so your net profit will be taxed at 21 so you should put 21 of your net profit up and that should cover it um for what you know your liability would be for

that year for federal state again would change depending on what state you're in and you're in their nexus requirements perfect thank you commander okay um and i've fixed the chat so everyone the the chat should be working again maybe just let me know if it's not but i think i found the one particular zoom setting that was blocking everyone from using the chat okay we've got another question from kim i'm a realtor and just filed for my s corp and put myself and my husband who is also a

realtor on payroll what's the best way to pay my truck and gas costs can the s-corp just pay those bills or should the business reimburse the employees okay so that would depend on how you want to set up again we could provide a more direct answer these are the type of things we do on a tax advisory call but if the vehicle is a company vehicle then uh what happens is you would pay the expenses and the expenses would be deductible to the s corporation uh now if uh you're allowing a an employee for instance you said it was you and your

husband if you guys are using the business vehicle the whole entire time what would happen is any personal um expense that you have or any personal use that you use the vehicle for you have to pay that and it has to be reported on your w to as income now if you um have a personal vehicle that's in your personal name and um you are using your personal vehicle in the course of business the business can reimburse you as the employee uh on a regional basis now that has to be done in conjunction with an accountable plan

which an account plan is really just a contract you write to yourself i'm going to pay a hundred dollars a month for the use of the vehicle and then what you would do is provide documentation of that you know like a mileage log or some other type of documentation that shows the uh business use and then that's reimbursed so then it would be a taxable um i'm sorry a expense that you can adjust for the business but it's not taxable to you because you're already paying for it it's like a reimbursement

so those are the two ways that you can handle that okay wonderful thank you all right uh next question from an anonymous attendee my company is an llc but designated as a c corp not an s corp should i pay myself a salary via payroll or via dividends i want to pay myself in a way that reduces personal taxes of course so they're currently in new york state okay uh well in general um if you're doing something active in the business meaning you're doing work you're you're the ceo you're working there doing marketing whatever

you're doing that should be a salary um you know generally now if you're just trying to you you're you're more of a passive thing or you're not doing everything you could pay yourself dividends at the end of the year you know and that would be you know based on a profit or however you have your business set up um and so that would lower your personal taxes if you just pay a dividend uh because you know generally it may be tax lower but it really depends on how or what you're doing in the business

whether you should pay yourself a salary or a dividend because dividends are really just for uh you know people that are shareholders versus salaries are for people who are doing active work so if you're reporting that you're doing active work it should be a salary regardless um and the salary should be based on how much a person would be paid off the street if you um hired them to do the same job that you are doing in the business okay great super okay next question is from austin as a small business owner for a digital

company i've heard the advice to register my business in a state that that is tax friendly uh so he says we filed in wyoming for example however when we filed with a cpa he said that address didn't actually matter does the state you register your business in even if you have no residency or other connection to that state actually have anything to do with my tax filing that's a good question it depends i'm gonna say it depends and we really probably need more information because each state is different but for

instance if you're following in delaware wyoming you know generally people have that resident agent you'll be responsible for whatever franchise tax they have and they don't have a personal tax so like if you're a llc or a partnership or a corporation over there um well i'm not going to say i'm going to say s corporation that's going to flow through to your personal so if you live in another state let's just say you live in california um you still have to report and pay in file a personal california tax return

that would have that net profit of your business on there if you're a llc partnership or s corporation now if you're a c corporation it depends uh at that point you would just be doing it and filing a state return in delaware which is just the franchise tax for the year and just your um federal tax return the 10th uh the 11 20.

so it really just depends on what state and what your particular entity is but in general um you still will have to file a tax return in the state in which you're a personal um resident of and if you have any nexuses meaning if you have any income that you're doing business in for instance you might live in california you might be registered in delaware but you have substantial amount of business in new york or something like that there may be a non-resident return that has to be filed in new york it just depends depend depends on your business and you know

what type of activities you have okay okay thank you that answers your question austin all right next question is from geno hello i'm planning on purchasing a home in 2023 uh but currently file on both a w-2 and llc uh uh slash s-corp i'm assuming do you know you mean that um you follow us you're an llc who files as an escort um so the question is how can i show more income through my business tax filings less business write-off expenses or more llc member distributions um okay well distributions aren't going

to show us income for uh purchasing a home um purposes um it's going to be the profit of your business and then the w-2 that's what's going to be showing up for uh as income if you need to show uh a higher income or whatever um now as far as having less business write off expenses uh what's necessary is to you know you should report whatever expenses you have um however if you're talking about it in the realm of okay i'm going to not expect so much or i'm going to cut down on you know for instance i'm not going

to purchase the car or i'm not going to purchase a piece of equipment that i plan to to do and so therefore my expenses are lower um you could do that which would mean your um net profit would be higher and then you qualify for more because of course your net profit is higher your tax would also be higher um but you could do that um other than that you could adjust your w-2 income uh that's that's tonight that's a idea um increase how much you make in your w-2s um yeah uh or you could even explore um

you know offsetting some of that um stuff with like a 401k or ira so that you can show you have that profit but there's a write-off and then maybe the in the back end um the the uh person who's approving you for the loan may be able to add those things back now that's kind of out of our scope as far as me giving you um suggestions on the mortgage but i do know that certain items that are appearing on your income statement can be added back and so that's how they increase your income as well but you want to talk to them more

about that but those are a couple of options you can um explore great thank you okay uh there's another note here from sonia i'm just going to keep moving on just to make sure we can get through everyone's questions hopefully let's see uh we've got just four minutes left here so there's a question from thomas we are a uh c corporation in delaware and we're invoicing for it services to a partner in europe should this sales invoice be affected with some sales tax i know that sales tax isn't necessarily

in our scope of services we focus exclusively on income tax i'm not sure command if you have any um any suggestions right well the sales tax would be it would depend on what the sales tax is in europe and we do have a um a partner that we deal with so if you were a client of bench we would refer you to our uh our our partner that handles international sales tax so that one i'm not exactly sure i would have to research that more because that is a little bit out of our scope you really only have a more income tax related

questions yeah okay okay all right another question here uh is a great one i paid quarterly taxes four times a year is there any other time to pay taxes um like taxes for actual income rather than estimated well you can always pay you know on whatever the profit you have by month or by quarter um the requirement for estimated tax um as you probably already know is just to make sure you're in compliance with the government you know anytime you owe more than a thousand dollars they expect you to pay estimated

tax for that upcoming year to make sure you you're paying into your your tax enough but there are times where you know especially during covet we saw all of these people not having as much money as they used to have as a profit because they of course wasn't in business because they had to shut down so then the next year came and so the actual income is like that is regained and now they you know their estimated tax isn't covering enough so you could if you wanted to and this is optional but you could

uh either at that time you pay estimated tax pay the tax based on uh your net profit versus what the estimated tax is or uh you could just pay you know and then some at the end of the year i mean it's really up to you but your requirement is just to pay whatever the estimated tax requirement is for that year perfect all right looks like we've got two more questions we'll try and get through them i'm currently a digital nomad i use my business account to pay for airbnbs and flights since i'm working

that sounds like a sweet gig is that correct and valid what do i need to set aside and show as proof in an event of an audit [Music] okay well i'm assuming that you're paying for your airbnbs and flights in the course of business uh and you are a business owner versus being a w-2 income earner and if that's the case then that's totally fine to pay for those items out of your business account you would just need to make sure that you retain the receipts and then you would need to write down in some place why you needed

the airbnb what is the business purpose and you know who you spoke with as possible and then the flight would be you know i went here to go to this cup this conference or i needed to go to this office or i needed to do you know you just put a reason why and so that would be um sufficient more than likely in the event of an audit okay great okay uh one more question um uh well and then we'll wrap things up uh and this is interesting one so as an s corp if you had 100k in profit how much would you be paying in taxes in the

state of california i'm not sure if uh yeah you would be paying your um the hundred thousand dollars uh tax rate based on um what your income is i'm not exactly sure what the california income tax rate but it would be your personal tax rate and then you would also have to pay the franchise convenience tax for california which is uh also a percentage of that profit so you actually have two taxes in california to pay uh your personal and then business tax which would be depending on whatever percentage that is um for their

uh i mean i could follow up with you i would have to get um the rates i'm not even sure the rates just like verbatim but um i'd be interested in you know providing you that answer if you wanted it okay perfect uh and let's see okay janelle yeah all right well thank you everyone we're gonna wrap things up there um and so uh yeah we hope that uh you found today's session uh helpful and valuable um thank you everyone for submitting your questions if this type of support is something you think that your

business would benefit from on a larger scale all throughout the year imagine having a one hour call with kamea where you can get all your questions answering and squeeze more of this really insightful knowledge from her um you can actually give bench a test run with our free trial so we offer a no commitment trial where we complete a prior month of year bookkeeping within just one business day and then we provide you with a set of financial statements to keep so uh our trial is uh super quick and this allows you to

very quickly see if bench is the right fit for your bookkeeping and tax needs before you make a decision uh and lastly i just want to say if you found today's session helpful please share our website uh and the registration link for this session we'll be running these every tuesday so share 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 them so thanks again everyone for your time and enjoy the rest of your day bye

you