

# Washington BIZ Fair- Small Business Owners Tax Workshop

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Types of Entities	Key Limitations	Key Benefits
Sole Proprietor	<ul style="list-style-type: none"> <li>○ Unlimited liability to owner</li> </ul>	<ul style="list-style-type: none"> <li>✓ Easy for a one-person business. Goes on 1040 Schedule C.</li> <li>✓ Qualified business income may be eligible for 20% deduction.</li> </ul>
Partnership	<ul style="list-style-type: none"> <li>○ Unless in Limited Liability or LLC form also has unlimited liability.</li> <li>○ Can be issues of shared control.</li> <li>○ Have to file tax return (Form 1065)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Easy to establish, though must have a written agreement.</li> <li>✓ Most tax features “pass through” to partners on schedule K-1.</li> <li>✓ Qualified business income may be eligible for 20% deduction.</li> </ul>
C-Corporation	<ul style="list-style-type: none"> <li>○ Has complex and sometimes costly organizational and administrative requirements.</li> <li>○ Distributions (dividends) are subject to “double taxation”.</li> <li>○ Files separate return Form 1120-C</li> </ul>	<ul style="list-style-type: none"> <li>✓ Limits Liability.</li> <li>✓ Has no shareholder # restrictions.</li> <li>✓ Stock can usually be readily exchanged, though such transactions may be taxable.</li> </ul>
S-Corporation	<ul style="list-style-type: none"> <li>○ Has some administrative costs and moderately complex tax filing requirements.</li> <li>○ Must file Form 2553</li> <li>○ Limited to 100 shareholders.</li> <li>○ No foreign ownership</li> <li>○ Files separate return on Form 1020-S</li> </ul>	<ul style="list-style-type: none"> <li>✓ Allows “pass-through” of many tax features to shareholders.</li> <li>✓ Allows shareholders some flexibility of receiving direct compensation and dividends without double taxation.</li> <li>✓ Qualified business income may be eligible for 20% deduction.</li> </ul>
LLC	<ul style="list-style-type: none"> <li>○ Is not a recognized tax entity but usually taxed as a sole proprietorship or a partnership!</li> <li>○ Provided for under state law. Requires a written operating agreement.</li> <li>○ Requires a ‘governor’ acting as a de-facto general partner.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Limits liability of members if properly formed and maintained.</li> <li>✓ Low cost to form and maintain.</li> <li>✓ Allows “pass-through” of tax features to LLC members.</li> <li>✓ May file taxes as a Sole-Prop, partnership, Sub S or a C-Corp (if properly elected).</li> </ul>

Commonly Misused Deductions	Proper Use	Things to Avoid
Car and Truck Expenses	Either actual costs prorated between business and non-business use based on miles or use a standard mileage rate which changes annually, based on business miles. Consider buying a mileage tracking app.	Cannot use part actual and part standard rates. If use actual in first year cannot swap to standard in next year. Extremely important to track your business miles (for both standard mileage or if using actual) as to miles, date, and purpose (and receipts if using actual).
Home Office	Can expense some actual costs <b>IF</b> space is used exclusively and regularly as principal place of business. <b>OR</b> can use a \$5 per square foot allowance but then not use actual.	This is an area of high visibility. Careless mixed use of home office space as business <u>and</u> personal must be avoided. Also, the actual calculations for proper expense allocation can be difficult or confusing. Taking depreciation on home can be counter-productive as this portion is subject to recapture gain, outside of home sale gain exclusion allowance.
Travel, Meals, entertainment and gifts.	Entertainment is no longer deductible under the new 2018 Tax Law. Meals for business (document purpose on back of receipt) can be taken as deductions at 50%. Business travel is deductible and meals while on business travel are 50% deductible. Gifts of up to \$25 per person per year are deductible.	This is also an area of high visibility and some confusion. Consider possible use of a standard per deim while travelling out-of-town. Keep documentation in the form of receipts (credit card statements may not suffice). Since entertainment is no longer deductible (except one employee party per year) use meals as business gatherings.
Questionable Business Purpose or Not Exclusively for Business	All expenditures are clearly for the business, not unusual or arguably personal.	Clothes and personal care purchases such as grooming and health club dues are not deductible. Services benefiting people whether owner or other which do not have a clear business purpose are not allowed. Ex. Yard care at home.
Useful Links		Some of the Many Helpful Publications from IRS
Washington Secretary of State-	<a href="http://www.SOS.WA.Gov">www.SOS.WA.Gov</a>	Starting a Business and Keeping Records
IRS-	<a href="http://www.IRS.gov">www.IRS.gov</a>	Pub 541- Tax Information on Partnerships
King County-	<a href="http://www.KingCounty.gov">www.KingCounty.gov</a>	Pub 505- Tax Withholding and Estimated Tax
Small Business Tax Calendar-	<a href="http://www.tax.gov/calendar">www.tax.gov/calendar</a>	Pub 542- Corporations
Electronic Tax Payments Set up-	<a href="http://www.eftps.gov">www.eftps.gov</a>	Pub 3402- Taxation of Limited Liability Companies
NW Accountants-	<a href="http://www.nwaccountants.com">www.nwaccountants.com</a>	Pub 538- Accounting Periods and Methods
Find sales and use tax rates-	<a href="http://www.dor.wa.gov./content/home">www.dor.wa.gov./content/home</a>	Pub 463- Travel, Entertainment, Gift and Car Expenses
IRS Videos-	<a href="http://www.irsvideo.gov/SmallBusinessTaxpayer/virtualworkshop">www.irsvideo.gov/SmallBusinessTaxpayer/virtualworkshop</a>	Pub 587- Business Use of Your Home
Trade Name Registration	<a href="http://www.dor.wa.gov/tradename.aspx">www.dor.wa.gov/tradename.aspx</a>	Pub 535- Business Expenses