

Small Biz and LLCs Tax Prep



Small Business Tax Preparation

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Starting and running a small business can be very challenging, but very exciting. Probably more of a pain in the butt, yet most business owners start a company to do something they love. That passion can be a great motivator, but it can also be a detractor. Proper small business tax preparation and planning, recordkeeping of your business tax deductions and money handling is a must. This is just the operational stuff- you also have to consider entity structure, exit strategies, risk mitigation, retirement planning and all that hoopla.

Basic Types of Small Business Tax Returns

Before we get too far along, there are some basics to get out of the way. You might already know all this stuff but there are others who don't so please bear with us as we run through some small business tax preparation scenarios-

Entity	Tax Return	Form
Trade Names, DBAs Sole Props	Schedule C, Individual Tax Return.	1040
Single Member LLC	Schedule C, Individual Tax Return.	1040
Multi-Member LLC Husband and Wife	<i>Community Property State</i> - Schedule C, Jointly Filed Individual Tax Return. <i>Common Law State</i> - Partnership Tax Return. The Revenue Code is clear on this, yet most tax professionals and attorneys mess it up. It's hard to enforce.	1040 1065
Multi-Member LLC	Partnership Tax Return.	1065
S Corp Election	S corporations do not exist. Rather an underlying entity, such as an LLC, elects to be taxed as an S Corp. Therefore a corporate tax return is filed.	1120S

The rest of this page is written for the small business owner who does not need a partnership (Form 1065) or corporate (Forms 1120 or 1120S) tax return. If you want more information on business tax returns, preparation fees and how it all works, please click on the button below-

LLC Tax Preparation

If you are a sole proprietor or a single-member LLC (SMLLC) without an S corporation election, your small business transactions

will be reported on Schedule C of your personal tax return (Form 1040). As you might know, a single-member LLC is considered a disregarded entity, therefore it does not have a separate small business tax return- this is a common misconception. Our fee for this tax return preparation is typically **\$500 to \$700** which includes August and November tune-ups. Where you fall in this range will depend on how much stuff you have going on. Good organization can overcome complexity... then again, being disorganized can make the simplest of small businesses seem like a full audit of Google. Either way we can help- it's what we do all day, every day.

For example, many small business owners have a home office, yet they might also have another work location. This needs to be handled correctly to not have the home office disallowed. Automobiles? Should the company own it or should you? Mileage deduction or actual expenses? These too must be properly discussed and accounted for on your tax returns. We will also help with SEP IRA (old school) or solo 401k plan (new school) contributions calculations, and determine what the best course of action is.

If you created a limited liability company with your spouse, you can elect to be treated as a qualified joint venture only if you live in a community property state. The IRS views a multi-member LLC (MMLLC as opposed to SMLLC) as a partnership, and therefore the IRS is expecting a partnership tax return on Form 1065 and K-1s issued to the partners. Yuck.

For small business tax preparation, click on the Get Started button above or use this button-

Small Business Tax Deductions

There are several tax deductions available to small business owners regardless if you are an LLC, partnership or an entity taxed as an S Corp. The obvious ones like printer paper and business cards are easy. But what about cell phones? What is the business use of a shared family plan? How about home offices? Meals and Entertainment- is it 50% or 100%? When can a meal be 100% deducted? Spoiler alert- a pizza party for the office is 100% deductible, but if the office is just you, then No. But if the office is you and your spouse, then Yes. Boom!



Self-employed health insurance and health savings accounts (HSAs) can be tricky, and many small business owners leave money on the table by deducting these on Schedule A versus Form 1040. This little "gotchya" could cost you several hundred dollars in taxes. Have you considered a [Health Reimbursement Arrangement](#) (HRA) or a Flexible Spending Account (FSA) for deducting dependent care benefits? Being a business owner has long hours and lousy pay-squeeze as much out of it as you can!

These are the type of things the Watson CPA Group will consult with you. Oftentimes the taxpayer or small business owner gets in trouble because he or she did not understand the rules. Once you know the rules and how to apply the rules, owners can take advantage of small business tax deductions without worry or concern. Please click on the button below for more information-

Self Employed 401k Plan

Once you launch your shiny new small business, you might also consider the several small business retirement plans which include solo 401k plans, profit sharing plans, cash balance and defined benefits pensions. For example, with a solo 401k plan or self employed 401k plan piggybacked with a defined benefits pension, you could sock away over \$192,000 at age 50. All tax

deferred if you like, which could yield a savings of over \$86,000 (assuming a 45% marginal tax rate with federal and state).
Wow!

Can't contribute to a Roth IRA because you make too much? Perhaps a solo 401k plan with Roth option is your best bet with high contribution limits and no income phaseouts. Fidelity, TD Ameritrade, Schwab, etc. offer solo 401k plans, but they do not have a Roth option in the plan provision. The Watson CPA Group is a 401k plan third party administrator (which means we created our own 401k plan document) that has a Roth option. In turn, the big boys at Fidelity, TD Ameritrade and Schwab will honor our 401k plan document to be the custodian of your 401k. Huh? [Contact us](#) for more information!

Note how we purposely did not mention SEP IRAs. These are old school and are usually designed to be crisis management tools (after the fact) rather than good planning tools and more product self employed retirement plans. Read more about the various self employed retirement options, including retirement tax bombs and the difference between tax deferral and tax savings below-



S Corp Package

The Watson CPA Group specializes in S corporations which have a small number of shareholders, and are often just a one-person show. Did you know that 95% of all S Corps have only one shareholder, and 99% of all S Corps have three or fewer shareholders? Because small business is a core competency for us, we have created an S corp package that includes the following (No, the S doesn't stand for stormtrooper)-

	A la Carte*	Aspen	Vail	Breck
S Corp Reasonable Salary Calculation (sample report)	\$400	Yes	Yes	Yes
Section 199A QBID Tax Optimization (more info)	\$300	Yes	Yes	Yes
S Corp Payroll Filings and Deposits	\$1,200	Yes	Yes	
Annual Processing (W2s and other filings)	inc.	Yes	Yes	
S Corporation Tax Prep (Form 1120S)	\$800 to \$1,200	Yes	Yes	Yes
Individual Tax Prep (Form 1040), One Owner	\$500 to \$700	Yes		Yes
Estimated Tax Payments (done thru payroll or directly by us)	\$300	Yes	Yes	Yes
2019 Tax Planning, Mock Tax Returns (Tax Questionnaire)	\$300 to \$500	Yes	Yes	Yes
Unlimited Consultation and Periodic Business Reviews (PBR)	\$1,200	Yes	Yes	Yes
First Research Industry Reports (sample report)	\$150	Yes	Yes	Yes
Small Business Tax Deductions Optimization	inc.	Yes	Yes	Yes
IRS Audit Defense	NA	Yes		Yes
	Annual Fee	\$2,940	\$2,700	\$2,640
	Monthly Fee	\$245	\$225	\$220

Note: A la Carte fee ranges are approximates. 90% of our clients fit into these fee ranges, but there are outliers. We have a handful of clients with over 30 rentals; their individual tax return is north of \$2,500. We also are assuming one state; if your business spans the galaxy (keeping with our stormtrooper motif) then additional fees will be discussed with you and

implemented. Typically each state is around \$250 since it affects both your business and individual tax returns (frankly, state apportionment is a pain in the butt, but it is our pain).

Couple of other things to keep in mind- we make very little profits on payroll processing... we offer it as a convenience to our clients. One throat to choke with a single call can be reassuring but if you want to run your payroll, go for it! Everyone thinks payroll is a piece of cake; write a check and done. Nope... we see a lot of mistakes being made by clients especially the handling of health insurance and HSA contributions since there are special rules.

You can prepare your own individual tax return (Vail package) as well... but the benefit of the Watson CPA Group preparing both tax returns is that we slide things around depending on income limitations, phaseouts, alternative minimum tax (AMT), Section 199A deduction optimization, etc. Having our arms around both can yield some good tax savings!

Some more things to consider- when a partial year remains, our usual annual fee is pro-rated to not charge you for services you didn't use (like payroll and consultation). However, a large chunk of our annual fee is tax preparation which is typically a fixed amount of \$1,300 (both corporate and personal). Whether we onboard you in January, July or December, we have to prepare a full year tax return. This increases the monthly fee for the remaining months of 2019 but the monthly fee will later decrease in January of 2020 to reflect the amounts above. Yeah, we make it sound like 2020 is just around the corner.



No BS

We are not salespeople. We are not putting lipstick on a pig, and trying to convince you to love it, even if Tom Ford's Wild Ginger looks amazing. Our job remains being professionally detached, giving you information and letting you decide.

We see far too many crazy schemes and half-baked ideas from attorneys and wealth managers. In some cases, they are good ideas. In most cases, all the entities, layering and mixed ownership is only the **illusion of precision**. Just because you can complicate the crap out of your life doesn't mean you must.

Section 199A Deduction Optimization

Section 199A is a derivative of the recent Tax Cuts & Jobs Act of 2017. In a nutshell, business owners including rental property owners will enjoy a 20% deduction based on the qualified business income. There are limitations based on income, W-2 wages and depreciation. As a result, there is some optimization that is necessary for a small business owner to get the most from the Section 199A deduction. On one hand we want to reduce W-2 salaries to shareholders to minimize self-employment taxes. On the other hand, we want to increase W-2 salaries so they do not limit the amount of Section 199A that is deducted. Read our full Section 199A Qualified Business Income article by clicking on the button below-

[Pass Thru Tax Reform](#)

Our Business Expertise



As mentioned elsewhere we primarily focus on small business owners and their unique consultation and tax preparation needs. With 16 full-time consultation professionals including Certified Public Accountants and Certified Financial Planners on [our team](#), the Watson CPA Group consults on corporate structures, S corp elections (even late S corp elections back to January), tax strategies, business coaching, industry analysis, executive benefits, retirement planning including individual 401k plans, exit strategies, business valuations, income tax modeling and tax representation.

We also work with business law attorneys in California, Texas and Colorado for business owners who have additional needs such as buying or selling a business including employee stock ownership plans and partner buy-ins. We also coordinate with Polycomp and RPS to create age-based profit sharing plans and cash balance (defined benefit) plans. We can run point on whatever your business needs so the communication is effective and efficient.

The button below links to our Periodic Business Review (PBR) Agenda. We use this throughout the year as a checklist for our business clients. We can also use it for any type of business consultation. Here are some other buttons that you might be interested in as well.

[Periodic Business Review \(PBR\)](#)

[Sample Biz Services Proposal](#)

[S Corp Questionnaire](#)

[Reasonable S Corp Salary](#)

[Business Tax Deductions](#)

[Auto Purchase Questionnaire](#)

Click the button below to schedule a 40 minute consultation. Our fee is \$150, but we credit that back to you if you decide to engage us for future services. Low risk, high- reward.

[Business Consultation](#)

How does all this work? Let's chat and figured it out together!

Record Keeping

Keeping accurate records is actually pretty easy, especially if you have a dedicated checking account for the business. Two elements are required to meet IRS standards- a written log or record of the business purpose, and evidence of the amount paid, date and to whom. Bank account or credit card statements in conjunction with financial or accounting software such as Money, Quicken, QuickBooks and Xero will cover most of your business expenditures. A trip to WalMart or Home Depot would probably require a detailed receipt since you can buy paper and diapers at a WalMart. Read more about proper small business



recordkeeping here-

Money Handling

The biggest and most repeated mistake that small business owners commit is to spend company funds on personal items. Do not pay the house mortgage with your business checkbook! Write a check to yourself (or make a transfer), and then write the mortgage check. Items such as gas for your car seem business related- unless the vehicle is 100% business use and owned (and titled) in the business name, then it becomes a mixed use vehicle, and the gas purchase should be handled the same way as the mortgage check. Then, you turn in expense reimbursements to your company for the expense. This is called an Accountable Plan- contact us for more details.

Hobby Versus Business

Is your business really a hobby? There several step by step criteria that the IRS and [Tax Courts](#) will use to determine if you have a genuine profit motive, or if you are just playing around with your business. There is no hard and fast rule such as the ubiquitous three years of consecutive losses rule. Recently the Tax Court upheld a track coach's eight years of consecutive losses as a legitimate business. Read more about hobbies here-

Business Coach, Advisors, Consultants, et al

The Watson CPA Group can also help you with business decisions such as marketing, hiring and training a staff, logistics, supply chain, and other issues that entrepreneurs face every day. We also have experience with business acquisitions, valuation, [SBA loans](#) and lending, and designing exit strategies. Most business owners don't think about exit strategies, but this becomes critical when getting involved with another partner.

Other things to consider are expense reimbursements, liability issues, retirement plans including annuities, life insurance, key person insurance, defined benefits plans, death clauses, divorce clauses, long-term care, health insurance, etc. [Schedule a consult today!](#)

We are your Colorado Springs Accountants, and your Denver Accountants too. We look forward to working with you! And even if you don't live in Colorado, we can still provide excellent service through modern technology and our client portal. Over 80% of our clients are outside Colorado! Weird, but that's the way we've grown. If you live somewhere really cool like Santa Barbara or New York, our team is more than willing to travel. Even Chicago has its moments.