

# SelfInformed

Published by the National Association for the Self-Employed

January 2014



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# Tax Season Is Here! Are You Ready?

BY AL RICKARD

**N**ow that the holidays are over, the real “wonderful time of the year” begins for small business owners: Tax season!

As usual, the U.S. tax code is full of changes this year.

For starters, entrepreneurs face a new landscape of tax rates for higher income individuals: a 39.6 percent income tax rate, a 20 percent maximum tax rate on capital gains and dividends, a 3.8 percent net investment income tax and a 0.9 percent Medicare compensation surtax. New as well are requirements and opportunities surrounding the tax treatment of repairs, improvements, acquisition costs and other common business expenses.

Some usual tax breaks for businesses may have ended in 2013 if Congress did not renew them, such as bonus depreciation, enhanced “Section 179” expensing and a work opportunity credit. (The survival of these tax breaks was still pending as this issue of Self Informed went to press.)

Finally, although the “employer mandate” under the new health care reform law was recently postponed from 2014 to 2015, now is not too early to start planning to comply with rules that will be based on employee makeup starting January 1, 2014.

## Tax Preparation Costs

Many self-employed individuals hire professional tax preparers/accountants to prepare and file their taxes. Others prepare their own tax returns. Either way, there is a cost for this process in terms of time spent or professional fees paid.

So how much does it cost to hire an outside professional?

The National Society of Accountants (NSA) reports that the average cost for a professional to prepare a 2013 itemized Form 1040 with Schedule A and a state tax return is \$261.

“The IRS says it takes an average of four hours just to complete and submit a Form 1040,” says NSA Executive Vice President John Ams. “Add at least

another hour if you also have to complete a state return. You have to ask, ‘How much is your time worth?’”

Ams adds that tax preparers make it their business to keep up with tax law changes. “If a professional tax preparer can catch even one deduction or credit you may have missed, that can easily pay for the fee,” he notes.

Self-employed individuals also typically have somewhat complicated tax returns, which requires even more time and expertise. NSA has also identified the following average fees for other Internal Revenue Service (IRS) forms:

- \$218 for a Form 1040 Schedule C (business)
- \$590 for a Form 1065 (partnership)
- \$806 for a Form 1120 (corporation)
- \$761 for a Form 1120S (S corporation)
- \$497 for a Form 1041 (fiduciary)
- \$667 for a Form 990 (tax exempt)

- \$63 for a Form 940 (Federal unemployment)
- \$142 for Schedule D (gains and losses)
- \$165 for Schedule E (rental)
- \$196 for Schedule F (farm)

Fees vary by region, firm size, population, and economic strength of an area. The average tax preparation fee for an itemized Form 1040 with Schedule A and a state tax return in each U.S. census district are as follows:

- New England (CT, ME, MA, NH, RI, VT) – \$251
- Middle Atlantic (NJ, NY, PA) – \$274
- South Atlantic (DE, DC, FL, GA, MD, NC, SC, VA, WV) – \$270
- East South Central (AL, KY, MS, TN) – \$294
- West South Central (AR, LA, OK, TX) – \$242
- East North Central (IL, IN, MI, OH, WI) – \$238
- West North Central (IA, KS, MN, MO, NE, ND, SD) – \$208
- Mountain (AZ, CO, ID, MT, NV, NM, UT, WY) – \$245
- Pacific (AK, CA, HI, OR, WA) – \$303

Fees for preparing other IRS forms also vary proportionally by region.

This fee information was collected in a survey of tax preparers conducted by NSA. The tax and accounting firms surveyed are largely owners, principals, and partners of local “Main Street” companies who have an average of more than 26 years of experience.

“Members of NSA are highly qualified tax professionals who typically hold multiple credentials that demonstrate their expertise,” Ams adds. “Taxpayers receive personal service from people who live and work in their community and fully understand local and state tax laws in addition to their deep knowledge of the federal tax code.”

Most of them hold widely respected credentials such as Enrolled Agent, Certified Public Accountant, Accredited Tax Preparer, Accredited Tax Advisor, and others (see sidebar).

Nearly 90 percent of accounting firms offer prospective clients a free consultation, which can be worth well over \$100 based on the hourly fees of most tax preparers.

Sixty percent of accounting firms do not require payment until returns are completed and clients are satisfied. Others may require a portion of the fee upfront or payments throughout the tax return process.

All fees assume a business owner has gathered and organized all necessary information to efficiently prepare a tax return.

### Tax Information You Need

Whether you prepare your own taxes or hire a professional, the following checklist of commonly required documents can help you prepare:

- Self-employed business income and expenses (e-mail a report to your tax preparer from your Quickbooks or other accounting program if possible)
- Detailed list of business inventory held on December 31 of the tax year
- Wage statements/W2s
- K-1 forms from partnerships, s-corporations, and estates
- Mortgage interest statement (Form 1098)
- 1099 Forms: 1099-MISC for Work Performed as an Independent Contractor, 1099-R for Pensions & Retirement Income, 1099-SSA for your Social Security Income, 1099G for your State Tax Refund
- Estimated federal and state taxes paid, including a list of the check amounts and dates paid
- Investment information: Year-End Statements for all investment accounts, such as brokerage accounts, retirement accounts (401k, 403b, IRA, ROTH,

Annuities), etc. Remember your Form 1099-B for Sale of Stocks/Mutual Funds, if applicable, including your original purchase price for shares sold.

- Investment-related expenses, including management fees charged by a financial advisor for non-retirement accounts, safety deposit box rental costs, etc.
- Interest and dividend income statements
- Medical and dental expenses, including medical insurance premiums
- Insurance premium expenses for long term care, life insurance, etc.
- Charitable contributions, including mileage and expenses incurred while volunteering
- Home energy improvement receipts for energy-efficient heating and air conditioning equipment, windows, solar panels, etc.
- Foreign bank account information, including foreign taxes paid
- Sales tax records if you purchased a car, boat, RV, or mobile home in the tax year that may be tax deductible (depending upon whether Congress renews this tax benefit)
- Lottery or gambling winnings/losses





- Social Security/unemployment income
- Income and expenses from rental properties
- Alimony paid or received
- Record of purchase or sale of residence, including closing statements
- Real estate and personal property taxes paid
- Job-related educational expenses
- Educational expenses for children
- Childcare expenses and provider information
- Job-hunting expenses, including a mileage log to log in each trip related to job-hunting
- Social security card/number
- Driver's license
- Dependents' Social Security numbers and dates of birth
- Last year's tax return
- Tax preparation fees paid during the prior tax year

If you are meeting with a tax professional and are not sure what documents are needed, bring them anyway – it is better to have too much than have to go back and gather additional documents.

If you need to find a tax professional, visit the NASE Small Business Locator and click on Professional Services to find accounting professionals.

NSA also has an online search directory to identify tax professionals in your area. Visit [www.nsacct.org](http://www.nsacct.org) and click on “Find a Professional” or call 800-966-6679. ■

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## CREDENTIALS MATTER THIS TAX SEASON

Entrepreneurs looking to hire tax preparers this year will encounter an alphabet soup of acronyms as they evaluate candidates.

In addition to credentials that business owners likely already know, such as “CPA,” many other combinations of letters can tell you a lot about the expertise of the person who prepares your tax return.

Generally, the more credentials the preparer holds, the more they'll charge to do your return, so it's important to understand the designations to find the best preparer to fit your tax situation.

The National Society of Accountants (NSA) offers this rundown of credentials:

**Certified Public Accountant (CPA):** This is a widely recognized credential for tax preparers and accountants. Each state has its own Board of Accountancy responsible for licensing CPAs who practice in that state, and each board issues rules that govern what a person must do to become a licensed CPA.

Many CPAs specialize in accounting as opposed to tax returns, so it is important to ask about recent experience preparing tax returns and whether they are current

on the latest laws in an ever-changing tax environment.

**Enrolled Agent (EA):** EAs have passed a three-part IRS exam covering individual and business tax returns, and must adhere to ethical standards. They must also complete 72 hours of continuing education courses every three years. Perhaps most significant for taxpayers, EAs are authorized to represent taxpayers before the IRS.

### ACAT CREDENTIALS

Tax return preparers and accountants can also earn credentials from the Accreditation Council for Accountancy and Taxation (ACAT) to demonstrate their expertise in taxation and business matters. Preparers must pass rigorous exams, as well as meeting experience and continuing education requirements, to earn these credentials. They include:

**Accredited Business Accountant/Advisor (ABA):** This credential demonstrates to clients, potential clients and employers that the credential-holder has a thorough knowledge and proficiency in financial accounting, financial reporting, financial statement preparation, taxation, managerial



# ATCP\$

accounting, business law, and ethics for small- to medium-sized businesses.

**Accredited Tax Advisor (ATA):** These practitioners can handle sophisticated tax-planning issues, including planning for owners of closely held businesses, planning for the highly compensated, choosing qualified retirement plans, and performing estate tax planning. Their expertise covers tax returns for individuals, business entities, fiduciaries, trusts and estates, as well as tax planning, tax consulting and ethics.

**Accredited Tax Preparer (ATP):** These practitioners have a thorough knowledge of the existing tax code and the preparation of individual tax returns. Their expertise covers comprehensive 1040 issues, including supporting schedules and self-employed returns, and ethics.

**Accredited Retirement Advisor (ARA):** This credential recognizes professionals who have a thorough knowledge of topics relevant to retirement planning and special issues of senior citizens including tax planning and tax preparation for decedents, estates, and trusts; and applying your knowledge and skills in real-life situations when serving aging clients.

## IRS AND STATE CREDENTIALS

During the past few years the IRS launched a program that would have required all professional tax preparers to obtain a Registered Tax Return Preparer (RTRP) credential. However, this program was struck down in the courts and is not in effect.

Even so, many tax preparers obtained the new RTRP designation before it was put on hold by passing an IRS test establishing basic competency in

preparing individual income tax returns (Form 1040s). So it is useful to know about this credential and the testing behind it.

The IRS does require all paid tax preparers to have a Preparer Tax Identification Number (PTIN), so make sure your tax preparer has one and includes it on your tax return when it is filed.

States are also starting to look at registering tax preparers. California and Oregon already require registration, and other states such as New York and Maryland are considering tax preparer registration.

After selecting a tax preparer, make sure you know who is handling your return within the firm, because the best credentials in the world won't help if the professional who holds them doesn't actually work on your return.



### SMALL BUSINESS LOCATOR Member Directory

- No monthly fees, members get listed for **FREE!**
- Find service categories that fit **your** business.
- Generate Leads & Grow Your Business.



- Online legal document preparation services to help you **START, GROW & RUN** your business.
- Start downloading your legal documents now!





# Ask The Experts

**Q:** *My health insurance plan was just canceled. My business is too small for group insurance. My insurance increased from a good PPO policy with a rate of \$300 per month and a \$1,000 deductible to a similar policy at \$1,250 per month and a \$10,000 deductible. I'm leery of giving my information to the new Health Care Exchange. I can't believe I'm going to have to pay more for my monthly health coverage than my mortgage. What is NASE doing about health insurance?*

**A:** I am sorry to hear about your situation and although it doesn't really help very much, I can assure you that you are not alone. I wish I had a magic answer but unfortunately I don't have one at this point. The NASE is expending a great deal of energy and resources to try and make a difference for our members and for all small business owners, but progress, as you might expect, is slow.

We are attacking this issue from two sides. First, we are trying our best to find good resources and good options for small business owners to find affordable options for their specific needs. You are probably aware that many rules and regulations prohibit business associations such as the NASE from having too much detail on any member medical choices. The NASE does not offer health insurance but does attempt to make options available as a resource to give small business owners a place to start as well as significant help in analyzing the Exchange Options that have been mandated by the Affordable Care Act.

On a second front, we are spending a majority of our time in Washington, DC advocating on behalf of small business to make sure our voices are heard. Your situation is very typical and we will continue to "yell" at the top of our lungs in Washington, DC for as long as it takes.

## GET MORE ANSWERS

The NASE's small-business experts are here to help you understand the ins and outs of operating a successful small business. Access to these professionals is free with your NASE Membership!

Just go online to the [NASE Business Learning Center](#) where you can ask the experts questions about:

- Taxes
- Financial issues
- Accounting rules
- Marketing
- Employee relations
- And much more

The experts are available 24/7 and ready to help!

I know for a fact that we are working hard for you, but I also recognize that this information does very little to help you with your specific financial issue this very second. My best advice is to make your voice known as well. Also, check out more detail at [www.NASE.org](http://www.NASE.org) for the Exchange options as well as other options through companies such as Assurant Health, UnitedOne, and U.S. Health Group. Depending on your specific situation, one of these companies may be able to help you.

*Keith Hall, NASE Health Insurance Expert* ■

# Member Spotlight

## Answering the Call to Help Others



*Beth Ratchford has been a NASE member since 2005 and is a Licensed Clinical Social Worker in **private practice** in Leesburg, Virginia. She works with adults of all ages but specializes in working with young adults in their 20s and early 30s. Some of her areas of focus include childhood trauma, family-of-origin issues, anxiety and depression and therapist counseling and consultation.*

### **What inspired you to enter the field you are in?**

My main inspiration for doing the work I do is because I've done my own healing work and know the profound impact it has had on my life. So I want to offer that to others. I also believe that being a therapist is my calling; it's what I'm meant to be doing with my life.

### **When and why did you start your business?**

I wasn't being challenged in the job that I was in, nor did I feel like I was really using my gifts. I started my business in 2005 doing both leadership development/team building and counseling, but in 2008 decided to focus only on the counseling part of my business. Now I do feel like I'm doing what I'm supposed to do. I'm so grateful that I get to be in a job that I love.

### **How do you market your business?**

I have a website and am on a few therapist finder sites, but most of my referrals come by word of mouth both through colleagues and clients. Because of the nature of my work most people want to know something about my work and me before they contact me. I also spend time networking with other therapists and folks in the community so that they can get to know who I am.

# Member Spotlight

## **What challenges have you faced in your business? How have you overcome them?**

One of the biggest challenges for me has probably been self-doubt about whether or not I could make it in private practice. That shifted for me through a combination of self-reflection and also having people in my life who support what I'm doing. Another challenge I face is being in the mindset that I don't just have a counseling practice, but that I'm running a business. The focus is a bit different. I have people around me who are business-minded so I've learned a lot from them and being around them reminds me of the importance of maintaining a business focus.

## **What's the best thing about being self-employed?**

I love knowing that what my business is today, and how it will grow in the future, is because of what I put into it. There's something about that that's really empowering. I also really like the flexibility of my schedule. That aspect of being self-employed contributes to my work/life balance, which is important to me.

## **What's the most important piece of advice you would give to someone starting their own business?**

My advice is based on something I wish I had done differently at the beginning. Ask for a lot of help. Talk to folks who are on the path ahead of you, both from your field and others, and ask tons of questions. Also, get good systems in place from the beginning.

## Learn More in the NASE Small Business Locator

Learn more about Beth Ratchford in the [NASE Small Business Locator](#) directory, where the company is listed in under [Health Care Services: Counseling/Therapy](#). You can [add your own company](#) to the NASE Small Business Locator in up to three categories at no charge – it is a free benefit to NASE members.

## **What's the best compliment you've ever received from a client?**

I often have clients thank me for helping them, but the biggest compliment comes when a client refers someone to me. To me that means they've had a good experience with me and have seen change and healing in their life.

## **Which NASE member benefit is most important to you?**

Help from the experts. It's nice to know that there are people available to answer questions as they arise. ■

## **GET PUBLICITY FOR YOUR BUSINESS!**

Your business could be featured in the *SelfInformed* Member Spotlight or another NASE publication. Let us know you'd like to be featured and tell us more about your business on our [Publicity Form](#).





# *Happy New Year!* **YOU GET TO PAY MORE TAXES.**

By Katie Vlietstra



Individuals and families falling below the \$200,000 will experience new restrictions...

Individuals and families will see a little less in their paychecks starting January 1, 2014 – wage earners and self-employed individuals who make more than \$200,000 (individual) and \$250,000 (couple) will be assessed an additional 0.9 percent Medicare surtax on top of the existing 1.45% Medicare payroll tax as well as a 3.8% Medicare tax on unearned income ((investment dividends, rental income, interest and capital gains on property).

Individuals and families falling below the \$200,000 will experience new restrictions on medical expense deductions and flexible spending accounts, including penalties for spending money on non-qualified medical expenses (simple human error!).

Additionally, tax payers who itemize their medical expense deductions will only be able to do so if those expenses exceed 10 percent of adjusted gross income (AGI); previously it was 7.5 percent. One caveat: individuals and/or your spouse who are 65 or older will be exempted from the increase and will still be able to use the 7.5 percent threshold.

The biggest tax hit will be faced by those individuals and families that fail to show proof of a qualified health care plan or a grandfathered health care plan for 2014. Failure to do so will result in a fine of \$95 or 1 percent of your income – whichever is higher – in 2014. That fine increases to \$325 or 2 percent of income in 2015 and \$695 or 2.5 percent of your income by 2016.

Clearly challenges persist as it relates to the Affordable Care Act and its implementation; the NASE continues to work with lawmakers to mitigate the financial impact of the law on the 23 million self-employed who are working hard every day to fuel our economic recovery. Access to affordable and comprehensive health insurance shouldn't have a negative tax impact on the self-employed. ■

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