Taxes and the Self-Employed

WITH THE UNSTABLE ECONOMY, and more and more companies downsizing or going out of business, people have decided to hang up their 9-5 hats. Job security, what’s that? That, my friends, has seemingly taken a nose dive and fallen by the wayside. Seniority seems to have taken a back seat to the economic downturn. Whether you have decided to become an entrepreneur, start a business, whether that is a small business, a family owned business, a micro business, or you decide to do freelance work, The National Association for The Self-Employed (NASE) commends you, as you should be. NASE offers various resources to assist you with starting a business or building an existing business. In addition, NASE offers advice to help business owners minimize business expenses and much more.

Can’t find an answer to a tax question?
Ask the NASE Tax Experts here.
With the numerous tax laws and tax codes, trying to navigate the waters of U.S. tax system can be quite daunting to say the least, and the Internal Revenue Service (IRS) does not consider your lack of tax law knowledge a reasonable cause to avoid paying penalties or interest that may be incurred resulting from errors and/or omissions reflected on your tax return.

**SOME MAJOR TAX CHANGES FOR TAX YEAR 2014**

**Income Tax Brackets.** There are seven tax brackets, 10%, 15%, 25%, 28%, 33%, 35%, 39.6%. Refer to this link for more detailed information relating to tax rates and tax brackets.

**Standard Deductions.** For tax year 2014, the standard deduction amounts increased.

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$6,200</td>
<td>$6,100</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$9,100</td>
<td>$8,950</td>
</tr>
<tr>
<td>Married Filing Jointly</td>
<td>$12,400</td>
<td>$12,200</td>
</tr>
<tr>
<td>Married Filing Separately</td>
<td>$6,200</td>
<td>$6,100</td>
</tr>
</tbody>
</table>

**Personal Exemption Amount.** The personal exemption amount increased from $3,900 to $3,950. There are phase-outs for personal exemption amounts, also known as PEP. For individuals, PEP begins with adjusted gross income (AGI) of $254,200, and $305,050 for married couples who file jointly. For individual taxpayers, the personal exemption phases out completely at $376,700 and for married couples filing jointly, phases out completely at $427,550.

**Earned Income Tax Credit.** The income limits and the maximum credit amounts increased from those in 2013.

<table>
<thead>
<tr>
<th>Number Of Qualifying Children</th>
<th>Earned Income Limits</th>
<th>Maximum Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three or more</td>
<td>$46,997 ($52,427 married filing jointly)</td>
<td>$6,143</td>
</tr>
<tr>
<td>Two</td>
<td>$43,756 ($49,186 married filing jointly)</td>
<td>$5,460</td>
</tr>
<tr>
<td>One</td>
<td>$38,511 ($43,941 married filing jointly)</td>
<td>$3,305</td>
</tr>
<tr>
<td>None</td>
<td>$14,590 ($20,020 married filing jointly)</td>
<td>$496</td>
</tr>
</tbody>
</table>

**Alternative Minimum Tax Exemptions.** As part of the American Taxpayer Relief Act of 2012 (ATRA), the AMT is permanently adjusted for inflation. The exemption amounts increased for 2014.

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>$52,800</td>
<td>$51,900</td>
</tr>
<tr>
<td>Married Couples Filing Jointly</td>
<td>$82,100</td>
<td>$80,800</td>
</tr>
</tbody>
</table>

**Foreign Account Tax Compliance Act (FACTA) Deadline.** On July 1, 2014, FACTA withholding on new accounts became effective. This reflects a six month delay from the previous deadline date, which was January 1, 2014. For other guidance relating to FACTA, refer to this link.

**Federal Gift Tax Exclusion Amount.** The federal gift tax exclusion amount increased to $14,000 for 2014. This means that a U.S. person can gift
another U.S. person $14,000 or less without creating a taxable event. In 2014, amounts gifted more than the $14,000 will require the donor to complete a Form 709 (Gift Tax Return).

**Federal Estate Tax Exemption.** The exclusion amount for estates of decedents who die in 2014 has increased to $5,340,000, up from a total of $5,250,000 in 2013. This means that in 2014, a person can gift up to $5,340,000 and not have to pay tax.

For more detailed information on these and other tax changes for 2014, refer to: [www.irs.gov/uac/Newsroom/In-2014,-Various-Tax-Benefits-Increase-Due-to-Inflation-Adjustments](http://www.irs.gov/uac/Newsroom/In-2014,-Various-Tax-Benefits-Increase-Due-to-Inflation-Adjustments)

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**So how did the U.S. tax system and the IRS come into existence anyway?**

**TAX FACTS**

During the Civil War, Congress passed the Revenue Act of 1861, which included a tax on personal incomes to help pay war expenses. In 1862, President Lincoln and Congress created the position of commissioner of Internal Revenue. In 1864, Congress enacted a flat rate income tax, which was ruled unconstitutional the following year by the U.S. Supreme Court because it was a direct tax not apportioned according to the population of each state. Ratified in 1913, the 16th amendment, which was originally passed by Congress on July 2, 1909, removed this objection by allowing the federal government to tax the income of individuals without regard to the population of each state. Also in 1913, the first Form 1040 surfaced after Congress levied a 1 percent tax on net personal incomes above $3,000, with a 6% surtax on incomes of more than $500,000. The first Form 1040 was introduced and used in 1913. It was a one page form that was much simpler than the form 1040 that is used today.

*Now that you know the history of the U.S. tax system, hopefully managing your business will be a little...LESS taxing for you.*
• Mind your business. In other words, properly manage all aspects of your business, including, but not limited to, your accounting records, finances, and employees. Save yourself time and money. Do it right the first time.

• Know what you’re doing. If you don’t know how to effectively run a business, hire a person or a group of people that do.

• Keep accurate financial records. Properly keeping track of your income and expenses is one of the most important things that you need to do as a business owner. There are a number of do it yourself (DIY) bookkeeping programs on the market that you can use. If you don’t want to do it yourself, hire a virtual accountant, or outsource the work. The dollars and cents of the business is not something that you want to guess at. You guessing will more than likely cause a mess which will only lead to unnecessary stress. Guess, mess, and stress, not a good combination.

COMMONLY OVERLOOKED DEDUCTIONS

• Start-up cost. Once the business starts, you can deduct qualified expenses incurred to get the business up and running. You can elect to deduct $5,000 of those expenses in the first year, and additional amounts have to amortize over 15 years.

• Business Related Meals and Entertainment. A taxpayer can generally deduct 50% cost of business meals and entertainment expenses. You must keep the receipt and properly note the business purpose on the receipt. A bank statement will suffice for expenses $75 or less.

• Actual vehicle expenses. While most business owners are aware that they can deduct business related mileage, some of you may not be aware that business owners have the option of deducting actual vehicle expenses instead of mileage. The method that benefits you most is the method that you should use.

For more information regarding these and other deductible business expenses, refer to IRS Publication 535 Business Expenses.
Member Benefits

Visit www.NASE.org to learn more about the following benefits!

LifeLock®

Every Identity Deserves Protection!

Unfortunately, identity theft is a real threat every day. So don’t wait until you become another statistic, start protecting your vital personal information today. It takes just minutes to sign up and then you can rest easy. But don’t take our word for it, try LifeLock® protection today and get it FREE for 30 days plus 10% OFF.

- LifeLock® Standard™
- LifeLock® Advantage™
- LifeLock® Ultimate Plus™

Get Your Discount Here!

Turbo Tax On-Line:

Save 15% on the No. 1 online tax preparation program. NASE Members receive a 15% discount on the #1 online tax preparation program. TurboTax Online makes filing your taxes easy...and it’s quick and affordable, too.

- Prepare your taxes for free and pay only when you’re ready to print or file
- No software to install
- File electronically and get your refund faster
- File before April 1st and take advantage of “Early Filer” pricing

Get Your Discount Here!

Save up to 32% on UPS Overnight Delivery Services with the NASE/UPS Savings Program.

SAVE WITH UPS online or contact the UPS – NASE Hotline at 800-325-7000. Assistance is available for enrollment from 7:00 AM to 7:00 PM (CST). Please refer to the National Association for the Self-Employed Program when calling.

Take advantage of special pricing discounts through UPS under the NASE/UPS Savings Program. Through this program, UPS offers special shipping rates for NASE Members on overnight, international, and ground delivery services. Start UPS Savings.

Free Business Listing. Get Noticed in the Member Directory!

You can add your own business to the NASE Small Business Directory in up to three categories at no charge. It’s a free benefit to NASE members. Simply login to NASE.org, click on My NASE and then click on the Small Business Locator section header. You will be issued an Access Code to log into your Small Business Locator account.

- Increase your web presence with more than 20,000 unique visitors per month
- Generate quality leads to fuel your marketing efforts
- Do business with other small business owners
- Get your FREE company listing, including website and email information
Q: I am attempting to complete my first Schedule C for my new business and I am not sure what is deductible. Do you have a list of deductible expenses that I can use?

A: There are certainly expenses that are common to all small businesses and those that are common to specific industries. Perhaps the best place to start a list of common expenses is right on that same Schedule C that you are preparing to complete. Part II of the Schedule C is titled “Expenses” and provides a great place to start from advertising to car and truck expenses to insurance and interest expense to travel and wages. The fact that the detailed expense items are listed right on the Schedule C indicates those are indeed common expense categories for small business owners.

Having said that I encourage you to avoid reviewing any specific list of expenses but instead simply look at all of the cash disbursements incurred in connection with your business. Keep in mind that almost all deductible items begin with the spending of money. The general requirement for a disbursement to be considered a deductible business expense is that the item was an ordinary and necessary expense for doing business in your specific industry. If you spent any money in connection with your business, most likely it will be deductible.

If you have not already done so, consider opening a separate bank account exclusively for your business. All business income will be deposited into that account and all ordinary and necessary business expenses will be paid from that account. At the end of the year, you will have already decided which expenses are business expenses as you pay the bill. If the service or product is primarily for business, then use the business debit card or a business check to pay the bill.

There are some expenses that don’t show up in that business checkbook or as a normal business disbursement so extra care should be taken to avoid missing those key deductions. Among the most commonly missed are the business use of your automobile, the home office deduction, and options you may have for making deductible retirement plan contributions. So make sure to look at all the expenses you incurred in operating your new business but also look outside the lines as well. As always, don’t forget that you are not alone. Bookmark our website at NASE.org and if you have a specific expense that you are unsure about, just let us know and we can help.
Darci E. McConnell is the President of McConnell Communications, Inc. located in Detroit, Michigan has been a NASE member since 2014. Darci joined the NASE after learning about its existence while conducting a search for grants for small businesses (The NASE offers $4,000 Growth Grants to our members). She was also excited to see other benefits for small firms such as growth tips and insurance discounts. As President, Darci is a publicist, crisis manager, entrepreneur, teacher, communicator and mentor. McConnell Communications has served clients large and small, ranging from Fortune 500 firms such as Feld Entertainment and Northwest Airlines to local non-profits such as 100 Black Men of Greater Detroit and the Detroit Branch NAACP.

What inspired you to enter the field you are in?
I’ve loved to write since I was a child, so I majored in English and Communication at the University of Michigan. I spent 14 years as a newspaper reporter at media outlets across Michigan as well as D.C. But as the industry was changing, it became tougher for me to do the type of journalism I wanted, and I decided that PR allowed me to use many of the same skills and connections.

When and why did you start your business?
I had a great meeting with the late, great Casino Magnate Don H. Barden. I was trying to decide whether to join an existing PR firm or to start one of my own. He said, “Well, what do you want to do? Do you want to work for somebody, or do you want to be independent?” Of course, I gave the latter response. He then became one of my first clients. The company was incorporated in May, 2004.
Did you open an office right away or do you work from home?
I’m proud to say that McConnell Communications is now entering its 11th year. The first two years I formed and built my business from home. As we began to prepare for growth in 2006, I moved the business into our current location in downtown Detroit.

What was the experience like transitioning from working from home to moving to your own office?
I actually was content working from home and wanted to delay the overhead as long as possible. But another mentor called me on it when I was visiting his office; he literally walked me up to the leasing office. One big change: It allowed me to establish better walls between work and down time, and I have to admit it made me a bit more productive. (Those ‘lunch breaks’ at home sometimes went on too long!) Having an office also helps with perception for a certain segment of the client base who don’t take you seriously if you’re based at home. I know telecommuting for workers and the age of the Internet has changed that some, but there are many clients who need to see a fully functional office. The cost was a downer when the economy tanked in Michigan in 2008-2009, but it has been great for growth, visibility and pride.

Do you have any employees or is it just you in the office?
Right now, we have 2 staffers and several contractors. We’ve had a little larger staff in the past, but have struggled with retention. Part of being a better business person was putting in a stronger process for onboarding/training, so that’s what I’ve been working on for the last 2-3 months. I expect to make 1-2 hires in the next 45 days.

What challenges have you faced in your business?
How have you overcome them?
The biggest challenge was having the expertise as a communicator, but not as a businessperson. So I did a lot of things the hard way, including not charging enough for services, not understanding the difference between gross revenues and profit, assuming that initial discussions automatically mean a contract gets signed, I could go on. I’ve since worked very hard to be as good at running a business as I am at delivering the services that we provide. I’ve done that by getting good mentors, having an advisory board for my company and attending professional development programs such as the executive education program at Dartmouth as well as Goldman Sachs 10,000 Small Businesses. I’m still learning!

How do you market your business?
About 75 percent of our business is referral. But when the economy bottomed out in Michigan in 2009, I realized we had to be more aggressive. So, we’ve done a lot of online advertising and we also try to stay visible through PR. This year we will probably invest the largest amount to date in advertising.
Which types of advertising do you plan on utilizing? Why?
We will definitely do online advertising focused on SEO (Search Engine Optimization) and social media (since organic growth through some sites has gotten tougher), and are planning at least one print ad in a very targeted publication that reaches a client base we’re trying to grow. The increased investment comes after I, as a student in the Goldman Sachs 10,000 Small Business program in Detroit, designed a plan for growth, both with a specific service as well as with a specific clientele. We need to brand this service in an aggressive fashion and target in a way that gets the clients we want, and I think an online campaign will help do that. We also always do a level of sponsorships for charity and golf outings, so that’s planned as well. Additionally I have been applying for business grants like the one the NASE awards (NASE Growth Grants) and if awarded, the sky’s the limit with our advertising.

What’s your schedule like, what’s a typical day for you?
I live and die by a to-do list, so that’s the first order of business. Outside of that, there’s no typical day. I could be drafting news releases, doing media coaching or arranging a photo shoot…or I could spend the day “cold calling” for clients through networking events, emails or on the phone. Because we do crisis management, there’s always a chance that whatever is on the schedule just increased tenfold, because a crisis usually requires pretty immediate and intense action. So it varies, but much of it involves writing, calling and interfacing with either clients, potential clients or the press corps.

Do you work primarily in Detroit and Michigan? Do you have or accept clients nationally?
The bulk of our clients are based in Michigan, but we’ve also been involved in national publicity campaigns such as the push for comprehensive climate legislation and helping a Fortune 500 company based out of Houston when it needed some crisis management. We’ve had clients in Missouri, Illinois, Ohio, North Carolina and New York as well; I’m sure there’s more, but that’s what comes to mind.

Before we wrap up, three quick questions, what’s the best thing about being self-employed?
The flexibility is great, but even better is being in a position to empower others, either by telling their stories to get others to act; by hiring them on as staffers or by enlisting them as contractors.

What’s the best compliment you’ve ever received from a client?
“I know we would not be where we are without the work you’ve done.”

What’s the most important piece of advice you would give to someone starting their own business?
Don’t be the business. Run the business.
OVER 66% OF SMALL BUSINESS owners responding to a new survey conducted by the National Association for the Self-Employed (NASE) ranked “decreasing monthly premiums” as the one thing they would change about their current health care plan. The survey, conducted October 27, 2014 through January 19, 2015, gauges the opinions of 188 small business owners and self-employed entrepreneurs nationwide on the issue of health care.

In addition to the overwhelming majority of respondents citing the monthly premium costs as a major concern, 53% of those surveyed said they had either “low” or “very low” confidence they will be able to obtain both affordable and comprehensive health care coverage in 2015. Greater than 23% of those we surveyed are budgeting to spend more than $10,000 on health care expenses alone this coming year. That level of spending on health care costs hurts the bottom lines of America’s smallest businesses and it impedes their ability to save, grow and create new jobs.

Furthermore, the survey found that the majority of self-employed do not qualify for health care premium subsidies. This re-enforces the need to find ways to drive down the overall cost of health insurance for those in the individual marketplace. While businesses continue to receive tax incentives and benefits for providing health insurance to their employees, the self-employed and micro-business entrepreneurs are saddled with the high cost of compliance with the ACA health care mandate.

The NASE continues to work with all of our partners, on and off Capitol Hill, to bring down the cost of health insurance and allow for the self-employed to utilize health care tools that other businesses have access to.

Katie Vlietstra is NASE’s Vice President for Government Relations and Public Affairs; You can contact her at kvlietstra@nase.org