

SelfInformed

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Tax Preparation for the Small Business Owner





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At The National Association for the Self-Employed, we know that tax season can be a hassle for independent contractors, freelancers, and small business owners. You don't usually have the resources to hire seasoned accountants, so you end up taking precious time out of your busy day to do it yourself. But never fear, NASE is here to guide you and your small business through the process with the essential knowledge you'll need to navigate your 2018 Tax Year.

What Forms Do Small Business Owners Have to Fill Out?

If you are self-employed via your small business, you will need to file the following IRS forms:

- **Schedule C**—(Profit or Loss From Business (Sole Proprietorship) form)
- **Form 1040**—(U.S. Individual Income Tax Return)
- **Schedule SE**—Self-Employment Tax

The first three forms should be filed together by the 15th day of the tax year, which in this case would be April 15th.

You may be able to bypass the Schedule C form and fill out the shorter version of it, called **Schedule C-EZ**. To qualify for this privilege, your business must have had expenses less than \$5,000, no inventory any time of the year, no net loss, and used the cash method of accounting. There are a few other qualifiers that you must adhere to, which you can check out [here on the IRS site](#).

What Forms Do Independent Contractors Have to Fill Out?

The main form that all independent contractors need to fill out is a **W-9**, or “Request for Taxpayer Identification Number and Certification” form. As opposed to employees, who are taxed based on wages and fill out a W-4, freelancers are taxed based on income minus business expenses.

Tip: If you work with a company for an extended period, you are considered a contractor, whereas

freelancers typically form short-term relationships with their clients. In the eyes of the IRS, it doesn't really matter which one you are, primarily. You'll need to fill out that W-9 no matter what.

What About LLCs?

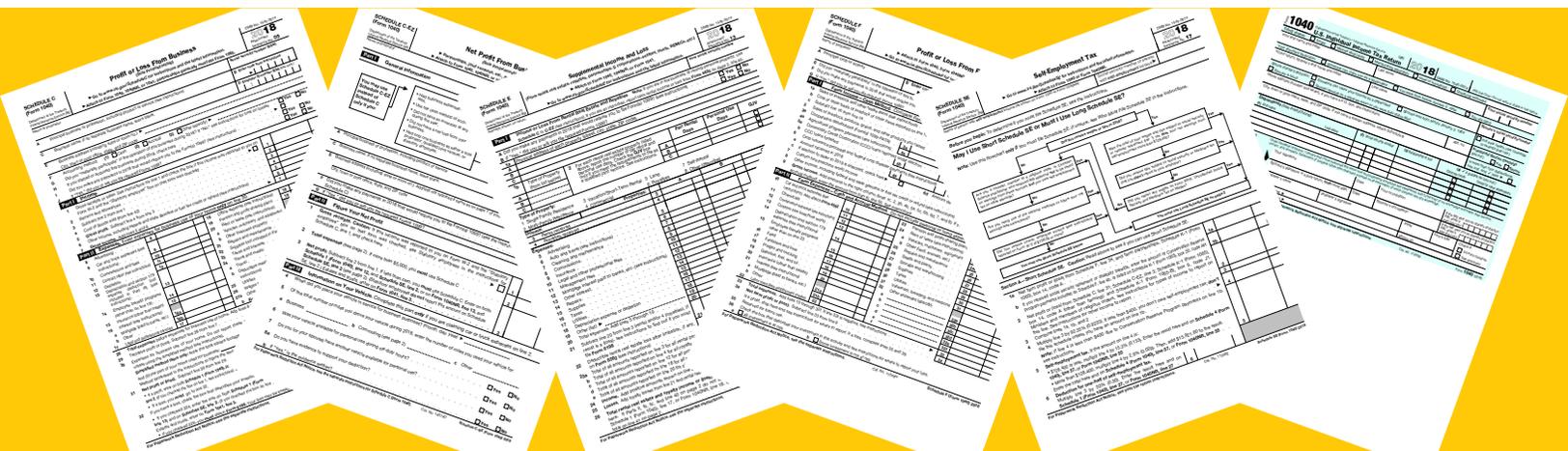
A Limited Liability Company (LLC), though similar to a small business owner, sometimes has to follow different instructions in order to correctly complete their tax filing, depending on what kind of LLC it is.

If the only member of your LLC is an individual, you need to report your income and expenses on Form 1040 and Schedule C. If you need to report income or loss from rental real estate, royalties, partnerships, S corporations, estates, trusts, and residual interests in REMICs, you will also need to fill out a **Schedule E**. If you need to report farm income and expenses, you will also need to fill out a **Schedule F**.

A single-member LLC whose member is a corporation will need to report income and expenses on that corporation's **Form 1120**.

A multi-member LLC usually needs to file a Form 1065, also known as a partnership return. If you decide, however, to file your multi-member LLC as a corporation, you will need to fill out the Form 8832, which is not necessary for a partnership.

Whichever forms you deem are appropriate for your LLC, make sure that you continue to file that way in the future.





What Are Quarterly Payments?

In addition to these annual tax forms, you want to look into filing quarterly payments, which help you distribute your tax payment responsibilities throughout the year. This is often more manageable for small businesses than making one big payment annually. In order to make these payments, you'll first need to calculate what those payments are.

Form 1040-ES, Estimated Tax for Individuals will help you figure whether you are required to make quarterly payments and what those numbers will look like.

Once you've calculated your quarterly payments, you can pay electronically through the **Electronic Federal Tax Payment System** or file using the blank vouchers that come with your 1040-ES. If your income changes significantly at any point during the year, it will likely alter what you owe each quarter, and you can adjust accordingly.

After you have set up your quarterly payment estimates, you will need to file **Form 941, Employer's Quarterly Federal Tax Return**, on the following dates: April 30, July 31, October 31, and January 31.

What Taxes Will I Have to Pay?

If you own a sole proprietorship, that means your business is owned and operated by one single person—you. It also means that you are self-employed, so you will need to pay a self-employment tax (SE tax) along with your personal income tax. The SE tax makes up for the fact that,

The best way to prepare for tax season is to do it throughout the entire year.

unlike wage earners, you don't have money coming out of your paychecks and going towards Social Security and Medicare. Instead, you are taxed for Social Security and Medicare through the SE form.

In addition to the SE tax, you will need to pay income tax on your businesses' profits and any other source of revenue. The amount that you are taxed will depend on how much money you make and what tax bracket that puts you in. Your taxable income is your gross annual income minus expenses and deductions.

Am I Ready For April?

The best way to prepare for tax season is to do it throughout the entire year. Being in the habit of keeping thorough records on a daily basis is the only way to keep tax-season-anxiety at bay. But the likelihood that you're as much of an effective bookkeeper as you are a small business owner is probably slim, so we've compiled a guide to organizing the elements you'll need to file your taxes.



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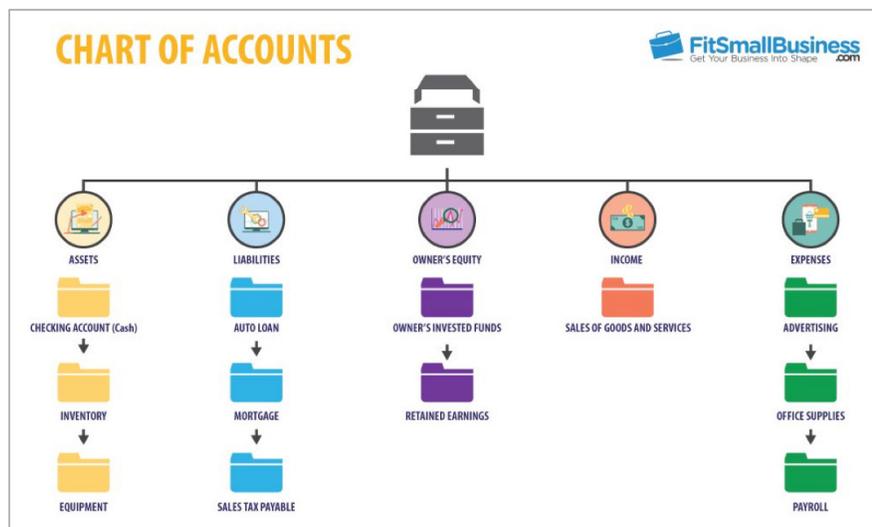
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To help you grow your business, we offer the following experts. Taxes, Business Strategy, Business Law, Marketing 101, Health Care Reform, Finance/Accounting, Marketing/Advertising, Real Estate, Information Technology, B2B Leads, Social Media and Database Management.

One way to expedite this process is to use a program like [Quickbooks](#) that takes your information regarding profits, losses, expenses, etc. and organizes it in a way that will be useful when filing your taxes. They even have a [specific program](#) that is designed particularly for small business. If you don't already have one of these programs set up, they usually have great sales leading up to April 15th.

If you want to have complete, autonomous control over how your data is organized, you can do so manually. This graphic made by [Fit Small Business](#) outlines an effective way to stay on top of your assets, expenses, income, and other important information:



Source: FitSmallBusiness.com

Keeping organized throughout the year will save you time sifting through loose papers and receipts or trying to track down old files on your computer when tax season rolls around. Being disciplined about this organizational upkeep will give you the confidence to tackle your taxes like a seasoned accountant.

Changes in 2019

Tax law is generally pretty straightforward, but there are usually a few changes made each year that it's helpful to be aware of. Here is a list of policies that have changed from 2018 to 2019 according to the [IRS](#).

- Forms 1040A and 1040EZ are no longer available. You just need to fill out the standard 1040.
- Because April 15, 2019, is Patriots' Day and April 16, 2019, is Emancipation Day, individuals who live in Maine and Massachusetts have until April 17, 2019, to file their 2018 Form 1040.
- The Bipartisan Budget Act of 2015 (P.L. 114-74) repealed the electing large partnership rules for tax years beginning after 2017, so Form 1065-B can't be filed for tax years beginning after 2017.



Ask the Expert

It's that time of the year again — tax time!

Millions of small businesses, including yours, will file their 2018 returns in just under 2 months. Many will enlist the help of their accountant, while many self-employed, home-based small businesses, will have to complete returns themselves. But there are important reminders that everyone should be aware of as they complete their returns this year.

Last week, the IRS officially started receiving 2018 tax returns. But due to the unfortunate government shutdown that created unnecessary uncertainty in the small business community, long lines await, responses to critical questions may be behind, and refunds could be delayed. We are encouraging everyone to start getting prepared now: start gathering documents, educating yourself about the tax code, and reviewing any tax obligations and policies that are relevant to your small business. With the threat of another government shutdown, it is important to start getting ahead of the curve now.

This year is also the first filing season where the new tax law – created by the passage of the Tax Cuts and Jobs Act – goes into effect. There are key tax policy changes that you should remember that may be beneficial to your business.

Some of these changes include:

- A lower individual rate, which is where most self-employed small businesses file
- A doubling of the standard deduction, which is \$12,000 for single filers and \$24,000 for married couples
- Standard mileage rate increased to 54.5 cents per mile
- Elimination or reduction of specific deductions such as for moving expenses or the unlimited state and local tax deductions known as SALT deductions, which are now capped at \$10,000

These improvements to the tax code will help simplify the tax return filing process for your small business and millions of others across the country. It will help save time and money, which can be reinvested directly into day-to-day business operations through investment in new equipment and additional employees. Use these changes to the tax code to benefit your business operations – and don't overlook deductions that can be helpful and don't leave anything on the table.

And, remember: you are not alone. If you need help, there are resources available to help you at [NASE.org](https://www.nase.org), [IRS.gov](https://www.irs.gov), and [SBA.gov](https://www.sba.gov).

Tax Day is Monday, April 15th.

New!



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Association 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.



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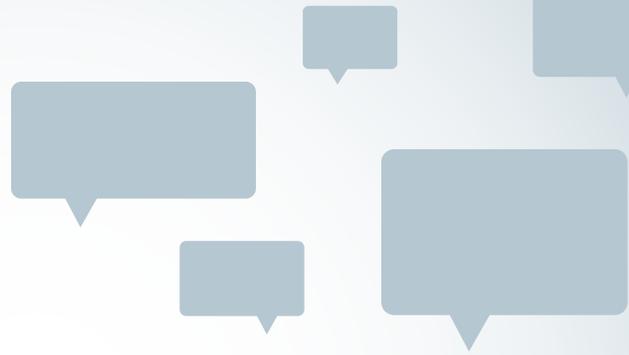
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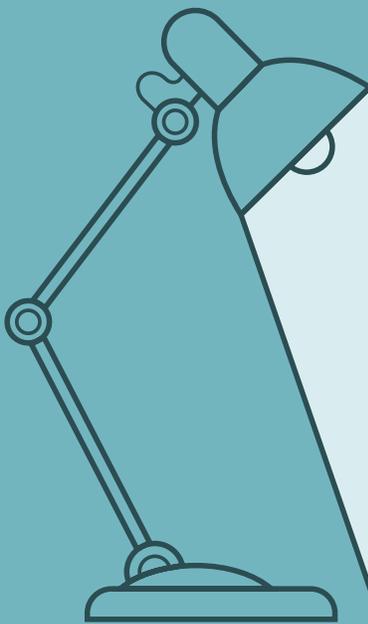


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Following State of the Union, NASE Encourages Congress and Administration to Support America's Small Business Community

President Donald Trump delivered his third State of the Union address, which had been postponed due to the government shutdown. While the address provided lofty rhetoric on key priorities for the Trump Administration, the NASE calls on the Administration and Congress to focus on America's small business community, following the devastating government shutdown that paralyzed small businesses by creating unnecessary uncertainty, many were left confused about IRS refunds and tax obligations, unable to get loan assistance, and were on the frontlines of a lack of sales from regular customers unable to support them.

The Administration and Congress must work together to address the remaining small business issues that could help improve the business climate. From addressing the health care crisis to advancing additional tax reform items and reducing burdensome regulations, the small business community is counting on bipartisan cooperation and common ground when it comes to their issues

The new tax reform law going into full effect this year is an enormous benefit to America's self-employed and micro-business community nationwide. Due to this new tax law, millions of

small business owners in every city and town across the country will save time and money with a new simplified tax filing system. The new tax reform package is another step closer to additional simplification of the tax code, allowing the small business community the ability to save, grow and expand. As the economic engine for the middle-class that provides a boost for our economy, they deserve a tax code that boosts growth.

Complimented with a host of beneficial updates, the new tax code supports our entrepreneurs with key enhancements like the doubling of the standard deduction, a lower individual rate – where the majority of self-employed small businesses file - and the elimination of unnecessary and time-consuming itemized procedures. Simplification means freeing up additional time for entrepreneurs to reinvest in their small businesses and keep more of their hard-earned money.

There is no time like the present to initiate and promote small business friendly policies that support and help America's 27 million small businesses grow and thrive. ■

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