

Small Business Tips for the self-employed

Hi everyone! If you're self-employed - or even if you just have a side business outside of your day job – **this info is for you!**

These are my fantastic small business tips that will save you time and money! I usually tell people these steps one by one on the phone, but this year I decided to write it down and you can all get on these steps right away to start benefitting.

1. **Use a mileage app** – MILEIQ has given us a coupon code (JROS601A) that our clients can use to save 20% on this app (should cost you around \$5 per month). This app is amazing. It tracks all of your trips and then you can swipe left if the trip was personal and swipe right if it was for business. No more guessing or looking at your calendar to figure out how much you drove. Just use this app and get your final business and personal mile amounts for the year and enter those into the self-employed worksheet.
2. **Start a separate bank account** – Call your bank and ask them if there is a fee to start a business bank account. If there isn't – then open one. (If there is you probably shouldn't be banking there). If the IRS ever asked you about any of your self-employment income or expense they are only legally allowed to examine your business bank account! So, if you use your personal account for business purchases they will then be allowed to examine anything in your personal account. So, it's best to keep things compartmentalized – and makes it much easier for your accounting and tax purposes. This is a fantastic segue to my latest discovery...
3. **Godaddy Bookkeeping!** – **Sign up now since it's the beginning of the year.** I discovered this magical tool at the beginning of 2017 so I decided to try it out for my own business before recommending it to you. OMG! I love it! It's like having a bookkeeper that only costs \$10 per month and keeps all of your expenses categorized without you having to do much at all.

All you do is link your business bank account, and any business credit cards, to the Godaddy account. Then every expense that comes in is categorized as either Office Expense, Supplies, Meals, etc. I pop into mine every month or two to make sure I like the categories it's choosing. 90% of the time it's fine. It's really easy to change the category if you want something different. If you go to Target a lot to buy work supplies you can tell it that every time you have an expense at Target it should be categorized as "Office Expense". Of course you can always change it later.

When you write a check you'll need to tell it what category to use. You can also write a note about who the check was written to and why. You can write notes on any of the transactions and you can easily delete them if you happen to purchase something

personal on your work credit card.

It will keep a running tab of your income and expenses and it even tells you how much you should send in as a quarterly estimated payment! Then at the end of the year you'll run a year end report so that you can easily fill out our self-employed worksheet! Just google Godaddy Bookkeeping.

4. **Get an HSA** – If you have a high deductible health plan you can *and should* open an HSA as soon as possible. Even if you can't afford to put any money into it this year please just get it open and put \$50 in it.

This is your own Health Savings Account at your own bank that you can use for medical and get a nice deduction on your tax return (or you can use it as an investment vehicle). Here's how you use it:

- a. **Contributing:** You can contribute money in a variety of ways:
 - only when you're about to go to the doctor, or
 - anytime you happen to have extra money, or
 - regularly, like monthly or yearly (you have all the way until April 15th of the next tax year to have it count for last year).
 - b. **Spending:** There are a few ways to spend the money (all on medical of course). Keep in mind that any gains you have made in this account and the principal that you put in are tax-free (like a Roth) if used for qualified medical. You can use your HSA debit card at the doctor, you can pay the doctor with a check and then reimburse yourself later by either writing yourself a check from the HSA or just getting cash out of it at the ATM. Or, you can use it as an investment
 - c. **Investing:** Hold onto your seats, because here's a really fun idea for those of you that can afford it. You can contribute a maximum of \$3,400 self-only and \$6,450 family (add \$1,000 more if you're over 55). Let's say that you have medical, dental, vision bills each year, but you don't use the HSA to reimburse yourself. You just keep all of those medical receipts. Then let's say 5 years down the road you want to go to Europe for a month, but you know that to actually get \$30k out of your IRA you'll have to take out \$50k (to pay the tax and penalty). But instead you just pull the \$30k out of your HAS as a reimbursement for all of those medical bills over the years! Magical! This is a little known tax-free investment strategy so, you're welcome! 😊
5. **Do not incorporate until your business is ready.** Yes, I realize that everyone you know has told you to become a corporation. Well, maybe you should...just not quite yet. (Side point – if you just want protection of your personal assets then form a single-person LLC

and you'll still file as a sole proprietor and avoid this corporate mess until you're making enough to worry about it).

What would a person get paid in your area of the country to do what you do (reasonable compensation)? Think of that amount now. Let's say it's \$40k. Is your business making \$40k yet? If no, then you don't need to incorporate because you're going to be paying payroll taxes on that \$40k that you pay yourself, so there's going to be no savings for you at that amount.

Let's say you're making \$50k. Ok, so your corp would have an extra \$10k that would not be considered compensation to you. That \$10k you would not have to pay self-employment taxes on (since you'd be a corp), you wouldn't need to pay payroll taxes on it (since it's not your wage). All you would pay on that is income tax at whatever your tax rate is. Nice! But here's the thing. You will have to file corporate and state returns every quarter, along with 2 more that are the final year returns. So, **that's 10 tax returns to file each year**. There are actually a few more that are special unemployment insurance returns, but I don't want to scare you. Every month or quarter, depending on how much you make and which state you live in, you'll need to send in payroll withholdings on the money you pay yourself and unemployment insurance to both the Fed and state. IL is 4.6% just as an example!

All of those returns cost money to get prepared if you're not doing them yourself. I am a tax preparer (obviously) and I became an S Corp at the beginning of 2017. After having a corp professional set it up for me I thought I could take care of it myself (I mean, how hard could it be?). Um, the lady that set it up for me now takes care of everything. That was after I received my first ever tax penalties from the IRS and IL for not filing and paying things I didn't even know existed!!! And by the way, the late payments for a corp are huge! They're nothing like individual tax return penalties. If you file your corp return late the penalty is \$100 for each month that it is late. So...I'm just sayin'. Be ready.

I hope you enjoyed these small business tips! Let us know if you have any further questions or need any help with anything!