



Certified Public
Accountants

Elliott Advisory Group

Presents

Self-Employment & Tax

The Importance of Tracking Income & Expenses

As a S/E individual, knowing:

- Your income
- If you're growing
- If you're making money
- If there are unnecessary expenses
- Areas for improvement

As a taxpayer:

- Reporting all income received – IRS matching
- Taking all allowed deductions to offset income
- Preparing for self-employment tax
- Having all information ready to file your taxes

Ways to Track Income & Expenses

- Excel Worksheet
- Wave Accounting (\$0-16 per month)
- Xero Accounting (\$20 per month)
- Quickbooks (multiple cost options)
 - Desktop version around \$650, annually - sunsetting
 - Online Self-Employed version \$20, per month
- * Several of the above have mileage & receipt add ons

Using Payment Applications Like CashApp, Paypal, Venmo, or Zelle?

New reporting requirement starting January 1, 2024:

Payment app providers must issue a 1099-K for “good or service” transactions paid to you that equal \$5,000 or more ***in the aggregate for the year.***

- Business accounts seem to be automatically tagged as good or service transactions.
- Personal accounts seem to be automatically tagged as a family/friend transactions.

Starting January 1, 2025, it is planned to issue 1099-K’s for \$2,500 or more. Threshold is set to change to \$600 or more in 2026!

(2023 1099-K threshold was \$20k in gross annual payments and at least 200 transactions.)

Do you have your current mailing information in the apps to receive the 1099K??

Good/Service Or Family/Friend Payment?

Turn on for purchases



Get a **full refund** if an eligible purchase isn't what you paid for. Seller pays a small fee.

MOUNTAIN COMMER...
Bank •• 4069

Send

Determines if the transaction is for a "Good or Service"

Not reported to IRS as income

Type of transaction

Payments between friends

Payment info

Completed

From

AMEX Credit Card
••••1021

\$514.80

Details

Amount

\$500.00

Fee

\$14.80

Total

\$514.80

For

Friends & Family

Transaction ID



Hulu

- \$7.65

Split

Share

Status

Complete

Payment method



Bank •

Personal Checking

Transaction details

March 11, 2022, 2:36 AM • Private

Type of transaction

Purchase

Reported to IRS as income

Deductible Expenses

- Accounting & Legal Fees
- Advertising/Marketing
 - Billboards/Signs/Banners
 - Business Cards/Printed Material
 - Gifts/Flowers/Cards
- Bank Fees
- Business Insurance, if applicable
- Cell Phone, **Reasonable** Business Use %
- Dues & Licenses
 - License Renewals
 - Membership Dues
- Education/Training Fees
 - Course Materials
 - Registration Fees
 - Seminars/Training Classes
 - Travel – Lodging/Car Rental/Flights
- Equipment
 - Camera
 - Computer/Laptop/Accessories
 - Machinery
 - Printer/Copy/Fax Machine
 - Tools/Gadgets
- Health/Dental/Vision Insurance

Deductible Expenses (*Continued*)

- Interest Expense
- Internet - **Reasonable** Business Use %
- Materials/Supplies
- Meals – 50-100% deductible in 2024/2025
 - Who/What/Where/When/Why
- Mileage OR Gas/Car Maintenance
 - \$0.67 per mile in 2024, \$0.70 per mile in 2025
 - Mileage Log/Apps
 - MileIQ
 - Everlance
 - TripLog
 - Hurdlr
- Home Office Furniture - **Reasonable** Business Use %
- Home Office Supplies - **Reasonable** Business Use %
- Office Utilities (outside of home)
- Parking Fees
- Postage
- Rent/Lease Payments (Office/Vendor Space/Equip)
- Repairs & Maintenance
- Software Expenses
 - Accounting Software
 - Mileage Apps
 - Square/Stripe/Payment Apps

Meals

- 100% Deductible

- Social activity primarily for the benefit of non-highly compensated employees.

- 50% Deductible

- Meals for business purposes
- Food or beverages provided for employees on the employer's premises and for the convenience of the employer. (ND after 2025)
- Meals provided to help employees work overtime. (ND after 2025)

- Meal and beverage expenses cannot be “lavish” or “extravagant”.

- While there is no clear definition of what is lavish or extravagant, a Supreme Court Justice was quoted saying “I know it when I see it”.

- If considered lavish or extravagant, they are non-deductible.

Self-Employment Tax (in addition to Federal Tax)

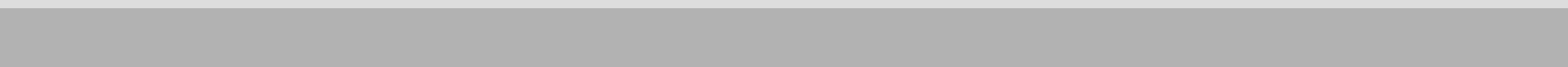
Social Security @ 6.2% + Medicare @ 1.45% = 7.65%

Employees and employers must both pay this tax, but self-employed individuals pay both sides of this tax for a total of 15.3%.

- ***BUT “Employer portion” is tax deductible***
- Social Security Tax capped at \$168,600 for 2024
 - was \$160,200 in 2023
 - will be \$176,100 in 2025
 - projected to be \$181,800 in 2026

Additional 0.9% of Medicare tax if SE income exceeds \$200k (single/HOH) or \$250k (MFJ)

Potential Tax Reduction Options

- Home Office Deduction
 - Paying Your Child to Work
 - Qualified Business Income Deduction
 - Contribute to an HSA
 - Contribute to a SEP IRA
- 

Home Office Deduction

This tax deduction is allowed if you have a designated space in your home that is used for your business.

Home Expenses Used in Calculation:

- HOA Dues
- Home Insurance
- Home Rent or Mortgage Interest
- Lawn Care & Pest Control Fees
- Property Taxes
- Repairs & Maintenance
- Utilities (water, waste, electric)

Additional Information Needed:

1. Square Footage of Home Office
2. Square Footage of Entire Home

Home Office Deduction

Two Calculation Options

Simplified Calculation:

- Does not require total of annual home expenses
- Allows \$5 per square foot of office space
 - Maximum of 300 square feet

Example:

Home Office = 100 sq ft

Home Office Deduction = \$500 (100 * \$5)

Regular Calculation:

- Requires total of annual home expenses

Example:

Home Office = 100 sq ft

Home Total = 1000 sq ft

$100/1000 = 10\%$

Total Home Expenses = \$8,000

Home Office Deduction = \$800 (8,000 * 10%)

Paying Your Child to Work

The Fair Labor Standards Act's minimum age requirements do not apply to minors employed by their parents or a person acting as their guardian.

Requirements:

- Documented job description
- Child must be able to perform the specified job requirements
- Proper timesheets
- Payments must be made to child

But wait, there are more rules!!



Paying Your Child to Work - *continued*

For a Sole Proprietor, Single Member LLC, or Partnership:

(must be wholly owned by only the child's parents)

- Payments to a child **under** age 18, as long as their total income is below the single standard deduction (\$14,600 for 2024, \$15,000 for 2025), are not subject to federal withholding, Social Security, or Medicare taxes.

C-Corporation, S-Corporation, or Partnership:

(where one partner is not the parent)

- The child is subject to the same withholding rules that apply to all other employees.
- 

Qualified Business Income (QBI) Deduction

Tax deduction that allows eligible self-employed individuals to deduct up to 20% of qualified business income.

Net Income \$100,000
QBI Deduction (20,000)
Taxable Income \$80,000

Filing Status	2024	2025
Single	\$191,950 - \$241,950	\$197,300 - \$241,950
MFJ	\$383,900 - \$483,900	\$394,600 - \$483,900

2026 – QBI deduction goes away

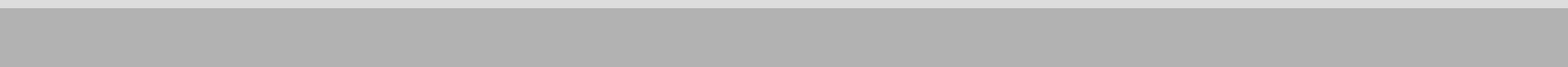
HSA (Health Savings Account)

- Tax-advantaged way to save money & “prepay” for health-related expenses
- Reduces taxable income – dollar for dollar
- Qualified withdrawals are tax-free

Contribution limits for self-only vs family

- \$4,150 / \$8,300 for 2024
- \$4,300 / \$8,550 for 2025
- Contributions must be made by April 15th of the following tax year

To Qualify:

- Not enrolled in Medicare
 - Enrolled in an HSA-eligible health plan
 - Not claimed as a dependent on someone else’s tax return
- 

Simplified Employee Pension (SEP) Contributions

- Self-employed individuals can contribute to a SEP retirement plan based on net self-employment income
- Can contribute up to about 20% of self-employment income
- Contribution limits are \$69k for 2024, \$70k for 2025
- Contribution will reduce your federal tax owed
 - Your tax rate multiplied by the contribution amount equals the reduction in taxes owed (\$69k x 22% tax rate = \$15,180 reduction in taxes)
- If you have employees:
 - At least 21 years old,
 - Worked for you 3 out of the last 5 years, and
 - Made at least \$750 annually;You must contribute for them as well

Contributions can be made up to October 15th of the following tax year, if extension filed

Tax Form Overview

Form Schedule C – Profit or Loss From Business



Form Schedule C – Profit or Loss From Business

Page 1

Part I		Income	
1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	Gross profit. Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6	7	
Part II		Expenses. Enter expenses for business use of your home only on line 30.	
8	Advertising	8	
9	Car and truck expenses (see instructions)	9	
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	
14	Employee benefit programs (other than on line 19)	14	
15	Insurance (other than health)	15	
16	Interest (see instructions):		
a	Mortgage (paid to banks, etc.)	16a	
b	Other	16b	
17	Legal and professional services	17	
18	Office expense (see instructions)	18	
19	Pension and profit-sharing plans	19	
20	Rent or lease (see instructions):		
a	Vehicles, machinery, and equipment	20a	
b	Other business property	20b	
21	Repairs and maintenance	21	
22	Supplies (not included in Part III)	22	
23	Taxes and licenses	23	
24	Travel and meals:		
a	Travel	24a	
b	Deductible meals (see instructions)	24b	
25	Utilities	25	
26	Wages (less employment credits)	26	
27a	Other expenses (from line 48)	27a	
b	Energy efficient commercial bldgs deduction (attach Form 7205)	27b	
28	Total expenses before expenses for business use of home. Add lines 8 through 27b	28	
29	Tentative profit or (loss). Subtract line 28 from line 7	29	
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____ . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	
31	Net profit or (loss). Subtract line 30 from line 29.		

Form Schedule C – Profit or Loss From Business

Page 2

42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4 **42**

Part IV Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month/day/year) ____ / ____ / ____

44 Of the total number of miles you drove your vehicle during 2023, enter the number of miles you used your vehicle for:

a Business _____ **b** Commuting (see instructions) _____ **c** Other _____

45 Was your vehicle available for personal use during off-duty hours? Yes No

46 Do you (or your spouse) have another vehicle available for personal use?. Yes No

47a Do you have evidence to support your deduction? Yes No

b If "Yes," is the evidence written? Yes No

Part V Other Expenses. List below business expenses not included on lines 8–26, line 27b, or line 30.

Various Reporting Due Dates

Employees

- W-2's are required to be mailed to the employee by January 31st of the following year.
- Copy of W-2's and related W-3 are required to be mailed to the IRS by January 31st *

Contract Labor

- Reporting is required if \$600 or more was paid for a service such as legal, consulting, marketing, or labor, etc.
- 1099's are required to be mailed to the contractor by January 31st of the following year.
- Copy of 1099's and related 1096 are required to be mailed to the IRS by January 31st *

****More than 10 filings must now be submitted electronically***

Tangible Personal Property Report – Due March 1st of the following year

Secretary of State Renewal – Due April 1st of the following year

Various Reporting Due Dates (Continued)

TN Business Tax Report – Due April 15th

- Required if gross receipts are \$100k or more. This filing renews your business license annually.
- If gross receipts are \$3,000 – under \$100k, you no longer need a business license, but you must obtain a “Minimal Activity License” from your county clerk.
- No business or minimal activity license is required for gross receipts under \$3,000.

S-Corporation & Partnership Tax Returns – Due March 15th, September 15th w/ extension

C-Corporation & Individual Tax Returns – Due April 15th, October 15th w/ extension

Extensions are not an extension of time to pay your tax, it's only an extension of time to file.

Audit & IRS Comments

Per the IRS 2024/2025 report, they are emphasizing there will not be an increase in audits of small businesses or taxpayers making under \$400k. Potential “marriage penalty”.

Fun Facts:

- For all returns filed for tax years 2013 through 2021, the IRS examined 0.44% of individual returns filed and 0.74% of corporation returns filed.
- IN FY 2023, 22.7% of audits were field audits and the rest were “desk audits”.
- Audit rates for 2021 tax returns
 - 0.2% Individuals
 - 0.1% S-Corporations & Partnerships
 - 0.3% C-Corporations

Other Comments

- Keep up with mileage log
- Keep proper documentation/receipts
- Try to stay organized throughout the year so you aren't back tracking
- Ask yourself – “Could I reasonably explain my expense deduction to an IRS Agent?”

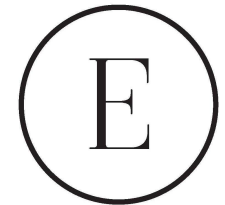
Comments or Questions? I'm here to help!



Nikki Elliott, CPA

Partner & CFO | Elliott Advisory Group

NElliott@eagcpas.com



Elliott Advisory Group
Certified Public Accountants