



HOW-TO: TAXES

Empowering You Through Tax Season

ESD instructors are, of course, all about empowering others. We also share our empowerment journeys. We don't, however, always discuss the process of financial empowerment. Whether it is your first, second, tenth, or thirtieth year of running your own ESD practice, it's that time again – tax season. The Association would like to help stave off fears and feelings of being overwhelmed, to calm worries about how much you will owe Uncle Sam. Dreading tax time is normal; sifting through seemingly endless paperwork, stressing over lost receipts, trying to understand what we can deduct, also normal. Even worse is worrying that we didn't make all our tax payments this during the year. Gulp.

We ask ourselves a million questions, and even the seasoned among us still find tax season ... well, taxing. The Association would like to help. In this How-To, we offer tools and strategies to make tax season less stressful. We will share resources and suggest potential deductions.

DIY or Tax Preparer?

First, think about whether you want to dedicate a lot of time to preparing taxes for your ESD practice. If it fits in your budget, it might be worth hiring a tax preparer. If that is not in your budget, that is okay, you can do this! If tax season makes you nervous, feel comforted that you are not alone—and since there are so many people in the same boat as you, tons of resources have been made available online and through community organizations. Investing in tax software such as Turbo Tax, H&R Block, Taxslayer, Taxact, etc. (ranging from \$50 to \$130) can also be a good option. The software guides you with prompts and leading questions that get you where you need to go, and these programs often provide live chat and phone support.

Type of Entity

Next, identify the type of business or organization you are operating. How you classify your business determines how and what you pay, write off, and report to the IRS and your state (and city) tax department. Taxes are determined by whether or not your

business functions as an entity separate from you. So the first thing to identify is whether your business is operating as a sole proprietor, partnership, S Corp, 501(c)(3) nonprofit, or something else. If you are organized as an LLC, you may also be incorporated or you may be operating as a sole proprietorship or partnership—which one will determine how you file and what you pay in taxes.

Sole Proprietorships, Partnerships, and Non-Corporate LLCs

In the case of sole proprietorships, partnerships, and LLCs operating as sole proprietorships or partnerships, you (and your partners, if you have any) and the business are the same entity for tax and liability purposes. On the upside, you will be taxed at a personal rather than a corporate income tax rate, and your business will not be subject to a corporate tax. This means that you will avoid “double taxation.” On the downside, you will have to pay taxes as a self-employed individual (using Schedule C), which means reporting business income and expenses on your personal tax returns. This will mean paying self-employment taxes (you will pay 100% of Social Security and Medicare because you are paying your personal share and the employer share of these). Your self-employment tax rate will be calculated as percentage of your business’s profits (up to \$142,800 in 2021) rather than as a percentage of your salary alone. If you are part of a partnership, how you file your taxes is similar, but there are some differences. Sole proprietorships file using [IRS Form 1040](#) with [Schedule C](#) and partnerships file using [IRS Form 1065](#) with [Schedule K-1](#) for each partner.

Note that [each state has its own tax rules](#). Some states tax the LLC as well as the owner (sometime in the form of a franchise fee), sometimes at a late rate, sometimes calculated as a percentage of your ESD business’s revenue. Please refer to your state’s tax department website or consult a professional to learn how LLCs are taxed in your state.

S-Corporations and Incorporated LLCs

If your ESD practice is operating as an S corp or an S-incorporated LLC, your business will be taxed like a sole proprietorship (or partnership if you have partners) where company profits pass through to your personal tax returns. This means that the IRS will tax you at a personal rather than corporate income tax rate. In fact, your business will not be liable for corporate income tax at all and will avoid “double taxation.” As the owner of an S corp, your ESD business has paid you as a salaried employee, which

is great because it means that you will not have to pay the more expensive self-employment tax and will instead pay the less expensive FICA (you pay half of Social Security and Medicare tax, the business pays the other half).

You may also be eligible to take a Qualified Business Income (QBI) deduction of 20% from your share of business income (your income as an employee), in addition to the usual business expense deductions. There are income limits and other restrictions, so not everyone will be eligible. For instance, if your total taxable income (business income plus other income) is at or below \$164,900 for single filers or \$329,800 for joint filers, you may qualify. (Note that QBI excludes: income earned outside the U.S., capital gains or losses, dividends, interest income, and certain wage and guaranteed payments made to partners and shareholders.)

Note that whether and how your S corp is taxed at the state level varies from state to state. For instance, California treats S corps a bit differently—in California, S corps are not treated as pass-through entities and are taxed directly, though at a lower rate than C corps. There's more to it than that, so please do the research or consult a professional to learn how S corps are taxed in your state.

The following forms might apply to your situation (always note filing deadlines as corporate deadlines are not always the same as personal tax deadlines): [IRS Form 2553](#), [IRS Form 1120-S](#), [Schedule K-1 \(Form 1065\)](#), and [Schedule E \(Form 1040\)](#), and personal return [Form 1040](#) (for all 1040 forms and schedules, [click here](#)).

501(c)(3) Corporations

If you are incorporated as a 501(c)(3) nonprofit organization, there are many taxes you will not have to pay. However, there are still some to which you are subject and you will still have to file tax forms with the IRS. Nonprofits are exempt from federal income tax as well as sales and property taxes. However, you will have to pay employee taxes (Social Security and Medicare). In addition, if your ESD nonprofit organization has generated revenue unrelated to the purpose for which you were formed, you will be required to pay income taxes on that portion of your revenue.

Deductions

We all know that deductions are a big part of filling out your taxes. So the question is, what kinds of expenses can you deduct from your ESD practice taxes? It will depend whether you are incorporated or not and whether your itemized deductions exceed

the amount of the standard deduction. Some of these are obvious, some are not. For all of them, record keeping is vital.

1099s for Independent Contractors

Don't forget to issue 1099s for all independent contractors you paid more than \$600 last year. 1099s are IRS tax forms used to report any income earned through sources other than employment. So independent contractors, freelancers, and self-employed workers all get 1099 forms.

Know that you are not alone this tax season. Instead, think of it as another step on your empowerment journey.

Examples of Tax Deductions

Business Meals: Did you discuss your business over lunch? Chat with a potential partner over coffee? Take an instructor out for dinner to discuss ESD teaching techniques? Usually, you may deduct 50% of these expenses, however, special rules were put into place for 2021 and 2022 whereby 100% of food and beverage expenses purchased from a restaurant will be 100% deductible. However, most entertainment costs are not tax deductible, with the exception of team-building activities, such as on work retreats.

Work-Related Travel Expenses: Air, train, and bus fare, car mileage, car rentals, Ubers, Lifts, hotels. These are deductible if you are traveling outside your "tax home" and if your trip is necessary to your ESD business. The IRS defines "tax home" as the city or general area where your business is located. These expenses are 100% deductible.

Business Meals: Did you discuss your business over lunch? Chat with a potential partner over coffee? Take an instructor out for dinner to discuss ESD teaching techniques? Usually, you may deduct 50% of these expenses, however, special rules were put into place for 2021 and 2022 whereby 100% of food and beverage expenses purchased from a restaurant will be 100% deductible. However, most entertainment costs are not tax deductible, with the exception of team-building activities, such as on work retreats.

Work-Related Car Costs: If you use your car for your ESD business, such as traveling to clients (but not for traveling to your office or studio or the one location where you regularly instruct), you may deduct gas, mileage, maintenance, auto registration, and safety check expenses or use the standard mileage deduction of 56 cents/mile). If you use your car for personal and work purposes, you may only deduct the the portion used for business as determined by mileage.

Business Insurance: Did you know you can write off your business insurance? Yes, you can! There are several types of insurance premiums you can deduct, but be aware that you may have to fill out IRS worksheets or forms to qualify. See IRS [Publication 535](#) and [Publication 974](#).

Medical Insurance: You can deduct group medical insurance for employees. In addition, you may qualify you to deduct the cost of medical and dental insurance for you and your family (if you are self-employed and are reporting a profit; if you are a partner with net earnings from self-employment as reported on on Schedule K-1 (Form 1065), box 14, code A; if you have a greater than 2% interest in an S corp – these would be recorded as wages on your W-2; or if you used one of the optional methods to figure your net earnings from self-employment on Schedule SE). There are several types of insurance premiums you can deduct, but be aware that you may have to fill out IRS worksheets or forms to qualify. See IRS [Publication 535](#) and [Publication 974](#).

Office Supplies: Save your receipts for pens, pencils, staplers, scissors, and other office-related items because these are tax deductible as business expenses.

Home Office Expenses: If you are a business owner or self-employed, you regularly use an area of your home exclusively for business purposes, and your home office is your business's principal place of business or where you regularly meet clients, the percentage of your home used for your home office will be tax deductible. In addition, you will be able to deduct office furnishings and things like a small fridge. See IRS [Publication 587](#).

Personal Medical Expenses: You may be able to deduct personal medical expenses on your personal income tax returns (1040), including preventative care, treatment, surgeries, and dental and vision care, unreimbursed visits to psychologists and psychiatrists and for prescription medications and appliances such as glasses, contacts, false teeth and hearing aids. In addition, you may deduct travel costs associated with medical care (mileage, bus or train fare, and parking fees). However, there are limitations: you may deduct qualified unreimbursed medical expenses that exceed 7.5% of your adjusted gross income if you use IRS Schedule A to itemize.

ESD Supplies: New mitts, bags, flooring, games, pool noodles, duck tape, relay equipment, and other wearable gear is tax deductible. Did you buy a Bob? Yep, write that off!

Business Overhead: Costs for business utilities, phone, Internet, and other overhead costs are tax deductible, but if you are operating out of a home office, only the portion used for your business will qualify.

Salaries: Salaries, wages, commissions, and bonuses may be tax deductible for small business owners with employees if they are deemed ordinary, necessary, and reasonable.

Education: Books, classes, courses, workshops, trainings, and online courses related to your business may be deductible.

Home Office Mortgage Interest: You can deduct a portion of interest payments made toward mortgage loans if you use a portion of your home as a home office. In addition, you may be able to deduct interest payments for loans used to buy, construct, or improve your home for business use.

Startup Costs: You may be able to claim a tax credit for the cost of starting up a business, including the cost of starting up a retirement plan. If you are eligible, you can claim "a tax credit of up to \$5,000.

Marketing Expenses: Advertising and marketing expenses may be tax deductible if the expenses are used to generate or keep customers or clients and are directly related to your business.

Business Loan Interest and Bank Fees:

Generally, you may deduct interest payments made for business loans. If you and the lender have a lender-debtor relationship (as opposed to a family loan), you are legally liable for the debt; and you and the lender both intend for the debt to be repaid (and not forgiven).

Professional Services: Fees for professional services may be tax deductible if they are deemed ordinary, necessary, and reasonable.

Charitable Contributions: Have you made donations to a charitable organization? If so and if donations to the organization qualify as charitable contributions, your donations will be tax deductible.

Foreign-Earned-Income Exclusion: For American citizens with businesses based abroad, your foreign income may be fully tax deductible, under certain circumstances.

Moving Expenses: If the main reason for a move is work-related, you can deduct the moving costs. This deduction works if you move 50 miles or more from your former home.

Retirement Account Contributions: You may be able to deduct the amount you contribute to your retirement account, if the retirement account is a tax-qualified retirement account. If you and your retirement account are eligible, you can't exceed the total earnings or the annual maximum contribution.

Business Gifts: You can deduct gifts to clients and employees up to \$25/person.

Depreciation: Think of big-ticket items such as a car or heavy machinery.

Taxes: A variety of taxes paid by your business are also tax deductible, including certain federal, state, and local taxes.

Sources

"21 Small Business Tax Deductions You Need to Know," Georgia McIntyre, *Nerdwallet* (February 5, 2021) <https://www.nerdwallet.com/article/small-business/small-business-tax-deductions-guide>.

"Are Medical Expenses Deductible?" Turbo Tax (February 17, 2022) <https://turbotax.intuit.com/tax-tips/health-care/can-i-claim-medical-expenses-on-my-taxes/LlhtkVqq9>.

"Business Loan Interest Tax Deduction: What Small-Business Owners Need to Know," Meredith Turits, *Nerdwallet* (June 24, 2020).

"Business Use of Your Home, Publication 587," IRS, <https://www.irs.gov/publications/p587>.

"California State Business Income Tax," David M. Steingold, *Nolo* (2021) <https://www.nolo.com/legal-encyclopedia/california-state-business-income-tax.html>.

"Can a Business Owner Deduct Medical Expenses?" Danielle Smyth, *Chron* (September 28, 2020) <https://smallbusiness.chron.com/can-business-owner-deduct-medical-expenses-65034.html>.

"Can I Write Off My Lunch if I Am Self Employed?" *Chron* (June 15, 2020) <https://work.chron.com/can-write-off-lunch-am-selfemployed-11614.html>.

"Deductibility of Legal and Other Professional Fees (Portfolio 523)," Lisa Starczewski, *Bloomberg Tax*, <https://pro.bloombergtax.com/portfolio/deductibility-of-legal-and-other-professional-fees-portfolio-523/>.

"Do Nonprofit Organizations Pay Taxes?" Chizoba Morah, Lea D. Uradu, and Diane Costagliola, *Investopedia* (January 15, 2021) <https://www.investopedia.com/ask/answers/08/nonprofit-tax.asp>.

"How Does the Deduction for State and Local Taxes Work?" Tax Policy Center: Urban Institute & Brookings Institution (2021) <https://www.taxpolicycenter.org/briefing-book/how-does-deduction-state-and-local-taxes-work>.

"How to Deduct Charitable Donations," Jean Murray, *The Balance Small Business* (May 4, 2020) <https://www.thebalancesmb.com/can-my-business-deduct-charitable-contributions-397602>.

"Here's the 411 on who can deduct car expenses on their tax returns," IRS (2019) <https://www.irs.gov/newsroom/heres-the-411-on-who-can-deduct-car-expenses-on-their-tax-returns>.

"LLC Taxes by State," *TRUiC, How to Start an LLC* (August 27, 2021) <https://howtostartanllc.com/taxes/llc-taxes/business-taxes>.

"Qualified Business Income Deduction (QBI): What It Is & Who Qualifies," Andrea Coombes, Tina Orem, Sabrina Parys, *Nerdwallet*, (February 10, 2022), <https://www.nerdwallet.com/article/taxes/qualified-business-income-deduction>.

"Retirement Deductions for Small Business Owners," Stephen Fishman, *Mile IQ* (April 22, 2019) <https://mileiq.com/blog-en-us/retirement-deductions-for-small-business-owners>.

"S-Corporation Tax Calculator," *Incfile*, <https://www.incfile.com/s-corporation-tax-calculator>.

"Should I Elect to Have My LLC Taxed as a Corporation or S Corp?" Jean Murray, *The Balance Small Business* (July 27, 2021) <https://www.thebalancesmb.com/should-i-elect-to-have-my-llc-taxed-as-a-corporation-397767>.

Tax Return Forms for Personal Filing, 1040 Forms and Schedules, IRS (2020-2021) <https://apps.irs.gov/app/picklist/list/formsInstructions.html?value=1040&criteria=formNumber&submitSearch=Find>.

"What Tax Form Does an LLC File: Everything You Need to Know," *UpCounsel*, <https://www.upcounsel.com/what-tax-form-does-an-llc-file>.

"Write Off Your Marketing Expenses and Save Money on Your Taxes," Laura Laire, *Laire Digital* (September 24, 2021) <https://www.lairedigital.com/blog/write-off-your-marketing-expenses-and-save-money-on-your-taxes>.

"Why You Might Choose S Corp Taxation for Your LLC," Stephen Fishman, *Nolo* <https://www.nolo.com/legal-encyclopedia/why-you-might-choose-s-corp-taxation-your-llc.html>.

Legal Disclaimer

The information provided in this article and on the Association website does not and is not intended to constitute legal advice, and the information and links are for general informational purposes only. It is possible that some of the information provided in this article and on the Association website is not the most up-to-date information or specific to your geographic location (for instance, please note that state laws vary). In addition, this article and the

Association website contain links to third-party websites—these links are for the convenience of the reader and they do not indicate endorsement of the linked companies, their websites, or the information contained on their websites. Readers of this website should contact an attorney to obtain advice with respect to any particular legal matter, including choosing how to organize and structure their business, and should contact an attorney or accountant for information regarding federal and state taxes (note that state taxes vary from state to state). In addition, all the information provided in this article is intended to apply to companies formed in the United States.