



ASSOCIATION OF ESD PROFESSIONALS

HOW TO SURVIVE TAX SEASON

(U.S. Edition)



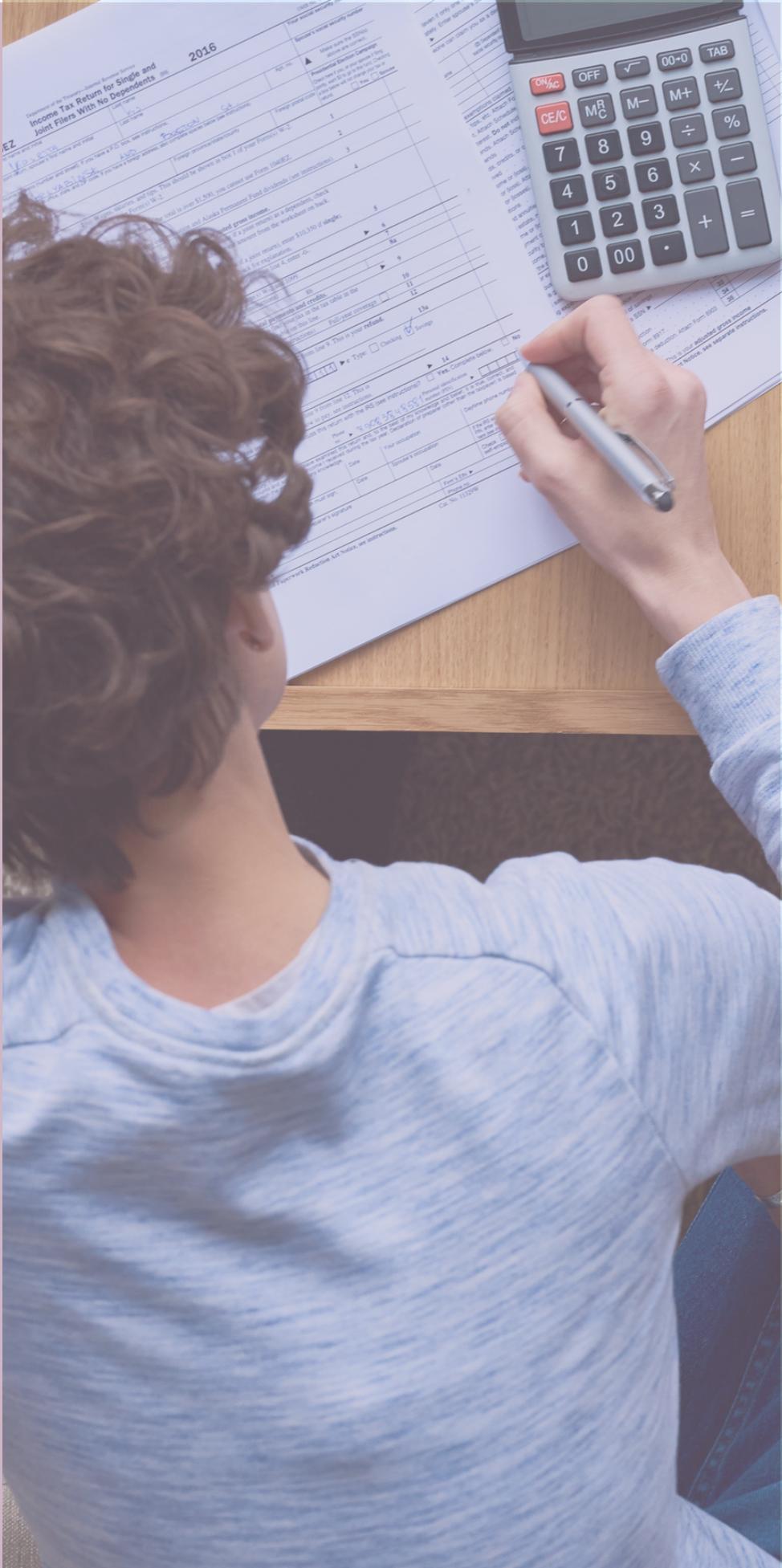


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EMPOWERING YOU THROUGH Tax season



It goes without saying, but we'll say it anyway, empowerment self-defense is all about empowerment. We believe that financial empowerment is a critical piece of personal empowerment. Therefore, this tax season, we would like to offer some tax tips to all the ESD professionals who run businesses and nonprofits.

Whether it is your first, second, tenth, or thirtieth year of paying taxes, the Association would like to help stave off any feelings of dread you may have when it comes to paying Uncle Sam. Experiencing anxiety at tax time? That's normal. Sifting through seemingly endless paperwork, stressing over lost receipts, trying to understand what to deduct? Also normal. Even the seasoned taxpayer may still find tax season ... well, taxing.

The Association would like to help with some tips, tools, and resources.

In the following pages, you will find guidance on identifying your business or organization type, navigating tax deductions, figuring out whether or not to do your taxes yourself, and more.

Read on to calm your fears and navigate this tax season like a pro!

Key QUESTIONS TO ANSWER THIS Tax season

1 || DIY OR TAX PREPARER?

First, think about whether or not you want to dedicate a lot of time to preparing taxes for your ESD practice. It might be worth hiring a tax preparer, especially since it may not cost that much in relation to your annual revenue, and your mental health will certainly benefit.

If it is not in your budget or you just prefer to be your own tax preparer, that's okay, too, you can do this! And you are not alone—there are tons of resources available online and through community organizations and social media groups. To make doing it yourself less painful, consider investing in tax software such as Turbo Tax, H&R Block, Taxslayer, Taxact, or similar programs (prices range from \$50 to \$150). 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 as well.

2 || TYPE OF ENTITY?

Next, identify the type of business or organization you are operating. How you classify your business determines what you pay, write off, and report to the IRS and your state (and city) tax department. One factor going into the calculation of your taxes is whether or not your business functions as an entity separate from you as an individual person.

Start by identifying whether your business is operating as a sole proprietor, partnership, S Corp, 501(c)(3) nonprofit, or something else. And remember that LLCs can be corporations or sole proprietorships or partnerships—it is whether or not your business is incorporated that determines how you file and what you pay in taxes.

2(a) || SOLE PROPRIETORSHIPS, PARTNERSHIPS, and UNINCORPORATED LLCs

In the case of sole proprietorships, partnerships, and LLCs operating as sole proprietorships or partnerships (the kind of LLC that is not also a corporation), you and the business are the same entity for tax 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 report your business income and expenses on your personal tax returns, filing as a self-employed individual (using IRS Schedule C). This means paying self-employment taxes (you will pay 100% of Social Security and Medicare because you are paying both 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 a few differences and so you use different forms. Sole proprietorships file using IRS Form 1040 with Schedule C and partnerships file using IRS Form 1065 with Schedule K-1 for each partner.



BE AWARE!

Each state has its own tax rules. For instance, some states tax the LLC as well as the owner. This may come in the form of a franchise fee, and sometimes it will be calculated at a flat rate, sometimes as a percentage of your ESD business's revenue. Please do your homework or consult a professional to learn how your business will be taxed by the IRS and your state.

2(B) || S-CORPORATIONS AND INCORPORATED LLCs



If your ESD practice is operating as an S corp or an S-incorporated LLC, at the federal level, your business will also be taxed like a sole proprietorship (or partnership if you have partners) where company profits pass through to your personal tax returns and you don't pay a corporate income tax. However, the way you file differs from the way you would file as a sole proprietorship, partnership, or unincorporated LLC. As the owner of an S corp (or S-incorporated LLC), 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, your 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. But beware, there are income limits and other restrictions, so not everyone will be eligible. 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.



BE AWARE!

QBI excludes the following: income earned outside the U.S., capital gains or losses, dividends, interest income, and certain wage and guaranteed payments made to partners and shareholders.

2(B) || S-CORPORATIONS AND INCORPORATED LLCs

Taxation of your S corp at the state level varies from state to state. While most states treat S corps the way the IRS does, some states have different rules. For instance, 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.



BE AWARE!

Please do your homework or consult a professional to learn how your S-corp will be taxed by the IRS and 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](#)).

2(C) || 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, at any rate, you will still have to file your taxes. 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 (unrelated business income tax or UBIT) on that portion of your revenue.

Not to sound like a broken record, but please do your homework or consult a professional to learn how your nonprofit will or won't be taxed by the IRS and your state.

DEDUCTIONS

Deductions! The best and the worst of doing your taxes. The best because deductions can lower your taxes, but the worst because they can be a bit of a paperwork nightmare. So, what kinds of expenses are tax deductible? It will depend on whether or not you are incorporated and whether or not your itemized deductions exceed the amount of the standard deduction. If you are going to be itemizing your deductions (and not taking the standard deduction), check out these obvious and not-so-obvious deductions.



BE AWARE!

Record keeping is vital!

1 || 1099S FOR INDEPENDENT CONTRACTORS



Don't forget to issue 1099s for all of the 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 whether your consultant calls themselves an independent contractor, freelancer, or self-employed worker, you will need to issue them a 1099.

As you peruse this article and the deductions, below, please know that there are many resources available to business owners filing their own taxes, and think of it as a step on your empowerment journey. We've listed sources and resources at the bottom of this article for your convenience.

2 || EXAMPLES OF TAX DEDUCTIONS

BE AWARE



Please do your homework or consult a professional to learn whether you and your business or nonprofit qualify for each deduction. With taxes, the devil's in the details!



WORK-RELATED TRAVEL EXPENSES

Air, train, and bus fare, car mileage, car rentals, Ubers, Lyfts, 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.

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? 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.

2(A) || MORE EXAMPLES OF TAX DEDUCTIONS

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).



MEDICAL INSURANCE



You may be able to deduct group medical insurance for employees. In addition, you may qualify 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.

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.



2(B) || Even more EXAMPLES OF TAX DEDUCTIONS

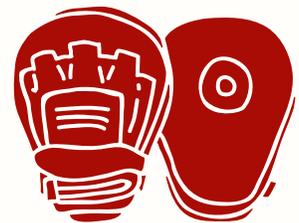
PERSONAL MEDICAL EXPENSES



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!



PROFESSIONAL SERVICES

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

OFFICE SUPPLIES

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



2(C) || BUT WAIT... THERE'S MORE!



salaries

Salaries, wages, commissions, and bonuses may be tax deductible for small business owners with employees 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.



EDUCATION

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

Foreign Earned-Income EXCLUSION

For American citizens with businesses based abroad, your foreign income may be fully tax deductible, under certain circumstances.



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.

2(D) || A FEW LAST EXAMPLES OF TAX DEDUCTIONS



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.

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."

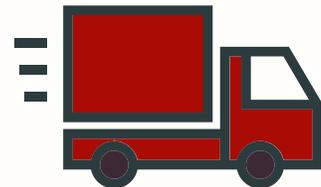


MARKETING EXPENSES

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.

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.



Taxes

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

DEPRECIATION

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

BUSINESS GIFTS

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

SOURCES & RESOURCES

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GOOD LUCK! WE ARE HERE CHEERING YOU ON!

DISCLAIMER

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