



Certified Public  
Accountants

# **Elliott Advisory Group**

**Presents**

# **Let's Talk Taxes!**

# The Importance of Tracking Income & Expenses

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As a S/E individual, knowing:

- Your sales 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 taxes @ 15.3%
- Having the financial information ready to file your taxes

# Types of Income

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- Self-Employment Income
- Interest/Dividend Income - Not taxed at self-employment rate
- W-2 Income – Taxes already taken out of each paycheck for you
- Alimony received – if divorce date is on or before December 31, 2018 (unless stated otherwise in the documents the judge signed)
- Capital Gains – from selling stocks or property
- Grant Income – Not always taxable

# Deductible Expenses

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- 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*)

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- Interest Expense
- Internet - **Reasonable** Business Use %
- Materials/Supplies
- Meals – 50% deductible in 2023
  - Who/What/Where/When/Why
- Mileage OR Gas/Car Maintenance
  - Rate is \$0.655 per mile
  - Mileage Log/Apps
    - MileIQ (\$6 per month or \$60 annually)
    - Everlance (\$8 per month or \$60 annually)
    - TripLog (\$5 per month or \$60 annually)
    - Hurdlr (Free Version or \$8 per month for Full Version)
- 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

# Tracking Income & Expenses

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- Paper/Notebook
- Excel Worksheet
- Wave Accounting (free online option)
- Xero Accounting (\$13 per month)
- Quickbooks (multiple cost options)
  - Desktop version around \$400, annually
  - Online Self-Employed version \$15, per month



# Excel Template Options

	2022
<b>Income</b>	
Necklaces	\$ -
Earrings	-
Bracelets	-
<b>Total Income</b>	<b>\$ -</b>
<b>Expenses</b>	
Buisness Cards	\$ -
Camera	-
Marketing Materials	-
Materials	-
Meals	-
Office Supplies	-
Software Expenses	-
Tools	-
<b>Total Expenses</b>	<b>\$ -</b>
<b>Net Income</b>	<b>\$ -</b>

Sales	Business Cards	Camera	Marketing	Materials	Meals	Office Supplies
\$ 100.00	\$ 100.00	\$ 349.00	\$ 75.00	\$ 15.00	\$ 15.00	\$ 10.00
200.00				150.00	11.00	5.00
350.00				100.00	35.00	18.00
400.00					18.00	12.00
250.00						
300.00						
<b>\$ 1,600.00</b>	<b>\$ 100.00</b>	<b>\$ 349.00</b>	<b>\$ 75.00</b>	<b>\$ 265.00</b>	<b>\$ 79.00</b>	<b>\$ 45.00</b>



# Home Office Deduction

## *To Further Reduce Your Taxable Income*

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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*

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### 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%)

# Becoming a Single Member LLC

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- Potential liability coverage
- Are you truly an “entity”?
  - Point of view from a judge
  - Separate bank/credit card accounts
  - Maintaining financials
- Fees associated with a Single Member LLC
  - Attorney/legal formation fees
  - Annual Secretary of State filing
  - Annual TN Franchise & Excise Tax Return
  - Tax Preparation Fees
- Option of purchasing liability insurance

***\*We are not attorney's and suggest discussing this issue further with a legal professional\****

# Potential Tax Reduction Options

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

# Paying Your Child to Work

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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*

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## **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 (\$13,850 for 2023), are not subject to federal withholding, Social Security, or Medicare taxes.
- Payments to a child 18 years or older are subject to Social Security and Medicare taxes, regardless of how much they are paid – meaning quarterly payroll reporting is required.
- Contractor payments (1099) made to a child 18 years or older will be subject to self-employment taxes.
- Payments to a child **under** age 21 are not subject to Federal Unemployment Tax Act (FUTA). However, if the child is 21 years or older, payments are also subject to FUTA taxes.

# Paying Your Child to Work - *continued*

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## **C-Corporation, S-Corporation, or Partnership:**

*(where one partner is not the parent)*

- Any payments to a child are subject to income tax withholding, Social Security tax, Medicare taxes, and FUTA taxes regardless of age. The child is subject to the same withholding rules that apply to all other employees.
- Contractor payments (1099) made to a child 18 years or older will be subject to self-employment taxes.

# Qualified Business Income (QBI) Deduction

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

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

## 2023 Phase Out Limits based on Taxable Income

- For Single Filers – starts at \$182,100 - \$232,100
- For MFJ Filers – starts at \$364,200 - \$464,200



# HSA (Health Savings Account)

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- Tax-advantaged way to save money & “prepay” for health-related expenses
- Reduce taxable income – dollar for dollar
- Investment growth in the account is tax-free
- Qualified withdrawals are tax-free
  
- Contribution limits for self-only vs family
  - \$3,850 / \$7,750 for 2023

**Contributions must be made by April 15<sup>th</sup> of the following tax year**

# HSA Eligibility

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Must be enrolled in an HSA-eligible health plan meaning:

**- Annual deductible of at least:**

- \$1,500 for self-only coverage
- \$3,000 for family coverage

**- Out-of-pocket maximum does not exceed:**

- \$7,500 for self-only coverage
- \$15,000 for family coverage

**- Not enrolled in Medicare**

**- Not claimed as a dependent on someone else's tax return**

# Simplified Employee Pension (SEP) Contributions

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- 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 \$66k for tax year 2023
- Contribution will reduce your federal tax owed
  - Your tax rate multiplied by the contribution amount equals the reduction in taxes owed ( $\$66k \times 22\% \text{ tax rate} = \$14,520$ )
- If you have employees – you must contribute for them as well

**Contributions can be made up to October 15<sup>th</sup> of the following tax year**

# Other Comments

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- Increase in audits – in-person & desk
- 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?”

# Tax Form Overview

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Form Schedule C – Profit or Loss From Business

# Form Schedule C – Profit or Loss From Business

## Page 1

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

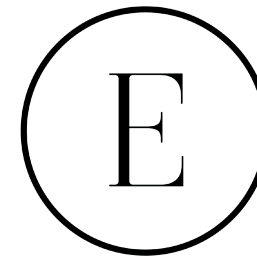

# Comments or Questions? I'm here to help!

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