

Tennessee Small Business Development Centers



for Business!

www.tsbdc.org



**INCOME TAX FOR
SOLOPRENEURS**



MISSION STATEMENT



We provide technical assistance including but not limited to:

- forming a business
- how to write business plans
- business plan reviews
- obtaining capital for start-up or expansion
- analyzing financial and management performance
- developing existing/new business
- planning for succession
- Marketing
- social media strategy
- technology planning

RESOURCE PARTNERS



PELLISSIPPI STATE
COMMUNITY COLLEGE



**SMALL BUSINESS
DEVELOPMENT CENTERS**



U.S. Small Business Administration

*Funded in part through a
cooperative agreement with the
U.S. Small Business Administration.*

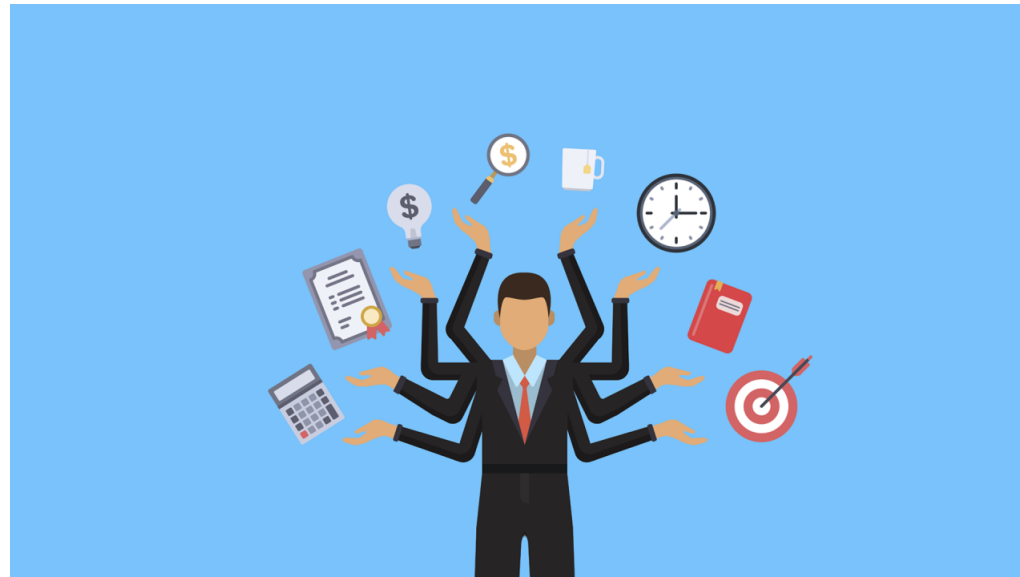
What is a Solopreneur?

Single Owner or Married Couple

Responsible for all aspects of business

Full Decision Making Ability

Typically is a Sole Proprietor or Single Member LLC





Business Owned and Operated by Spouses

Generally, if you and your spouse jointly own and operate an unincorporated business and share in the profits and losses, you are partners in a partnership, whether or not you have a formal partnership agreement. You generally have to file Form 1065 instead of Schedule C for your joint business activity; however, you may not have to file Form 1065 if **EITHER** of the following applies.

- You and your spouse elect to be treated as a qualified joint venture.
- You and your spouse wholly own the unincorporated business as community property and you treat the business as a sole proprietorship

Qualified Joint Venture

You and your spouse can elect to treat an unincorporated business as a qualified joint venture instead of a partnership if you:

- Each materially participate in the business
- Are the only owners of the business; and
- File a joint return for the tax year

Making the election will allow you to avoid the complexity of Form 1065, but still give each of you credit for social security earnings on which retirement benefits, disability benefits, survivor benefits, and insurance (Medicare) benefits are based.

In most cases, this election will not increase the total tax owed on the joint return



Jointly owned property

You and your spouse must operate a business to make this election. Do not make the election for jointly owned property that is not a trade or business.

Only businesses that are owned and operated by spouses as co-owners qualify for the election. Thus, a business owned and operated by spouses through an LLC does not qualify for the election of a qualified joint venture.

Making the election

To make this election, divide all items of income, gain, loss, deduction, and credit attributable to the business between you and your spouse based on your respective interests in the business.

Each of you must file a separate Schedule C. Enter your share of the applicable income, deduction, or (loss) on the appropriate lines of your separate Schedule C. Each of you may also need to file a separate Schedule SE to pay self-employment tax.





Schedule C

Schedule C reports business income and expense

Schedule C is filed with your personal return (Form 1040)

Filed by sole proprietor or single member LLC



Line A

Describe the business or professional activity that provided your principal source of income reported on line 1.

If you owned more than one business, complete a separate Schedule C for each business.

Give the general field or activity and the type of product or service. For example, “appraisal of real estate for lending institutions.”

Line B

Enter on line B the six-digit code from the Principal Business or Professional Activity Codes chart. For example, establishments primarily selling prescription and non-prescription drugs, select PBA code 456110 Pharmacies & drug retailers.





Line D

**Enter on line D the EIN that was issued to you
DO NOT enter your SSN on this line
If you do not have an EIN, leave line D blank
You need an EIN if you have a qualified retirement
plan or have employees**

Line E

**Enter your business address
Show a street address instead of a box number.
Include the suite or room number, if any**

**If you conducted the business from your home
located at the address shown on page 1 of your tax
return, you do not have to complete this line.**

Schedule C Questions

Accounting Method: Cash vs Accrual

Material Participation: The IRS asks this question chiefly to screen out businesses that are really passive, investment activities for their owners instead of actively managed businesses.

1099's: Given to any non-employee who earned in excess of \$600

SCHEDULE C (Form 1040)
Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business (Sole Proprietorship)
Go to www.irs.gov/ScheduleC for instructions and the latest
Attach to Form 1040, 1040NR, or 1041; partnerships generally m

Name of proprietor

A Principal business or profession, including product or service (see instructions)

C Business name. If no separate business name, leave blank.

E Business address (including suite or room no.)
City, town or post office, state, and ZIP code

F Accounting method: (1) Cash (2) Accrual (3) Other (specify)

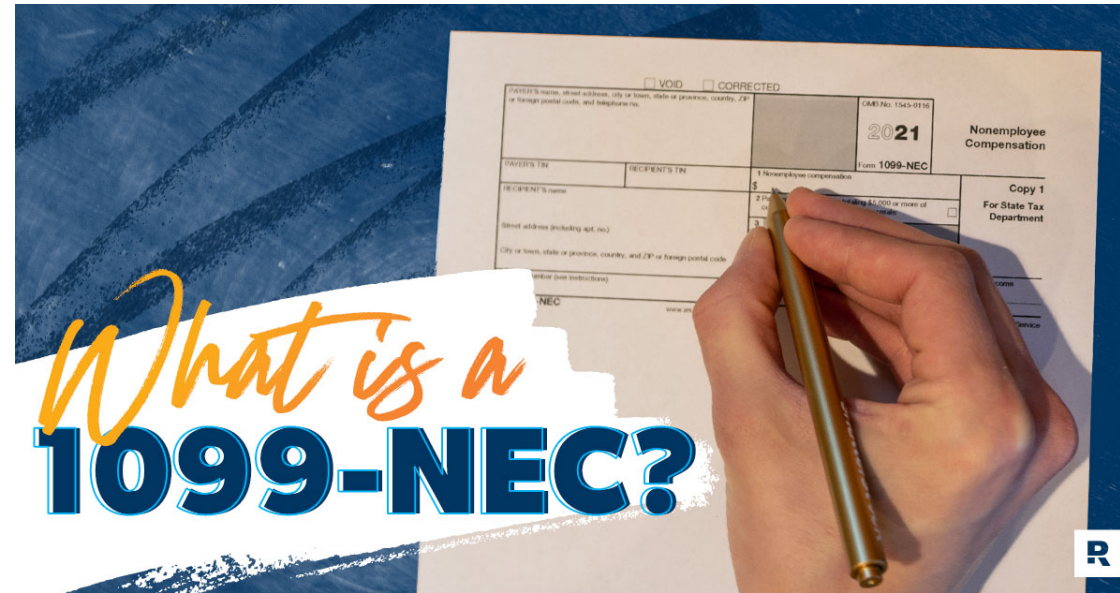
G Did you "materially participate" in the operation of this business during 2018? If "No," see

H Did you start or acquire this business during 2018, check here

I Did you make any payments in 2018 that would require you to file Form(s) 1099? (see ir

J Did you make any payments in 2018 that would require you to file Form(s) 1099?
If "Yes," did you or will you file required Forms 1099?

Part I Income
Receipts or sales. See instructions for line 1 and check the box if this income w
"employee" box on that form was checked



Any trade or business that makes nonemployee compensation payments totaling \$600 or more will receive a Form 1099-NEC.

Payers send a copy to both the contractor and the IRS.

Income

Enter gross receipts from your trade or business.

Include Sales Tax or Not?

Be sure to check any Forms 1099 you received for business income that must be reported on this line.

If you received one or more Forms 1099-NEC, be sure line 1 includes amounts properly shown on your Forms 1099-NEC. If the total amounts that were reported in box 1 of Forms 1099-NEC are more than the total you are reporting on line 1, attach a statement explaining the difference.



Returns and Allowances

A sales return is a cash or credit refund you gave to customers who returned defective, damaged, or unwanted products.

A sales allowance is a reduction in the selling price of products or services, instead of a cash or credit refund.



Cost of Goods Sold

The total cost a business has paid out of pocket to sell a product or service.

ADD:

Beginning Inventory

Purchases of Inventory

Cost of Labor

Materials and Supplies

Other Costs

SUBTRACT:

End of Year Inventory

= Cost of Goods Sold





Report on line 6 business income not reported elsewhere in Part I.

Be sure to include amounts from the following.

- **Scrap sales.**
- **Bad debts you recovered.**
- **Interest (such as on notes and accounts receivable).**
- **Prizes and awards related to your trade or business.**

Business Expenses:

Advertising – Social Media Adds, Newspaper, etc.

Car and Truck Expenses – Actual or Mileage 65.5 Cents

Commission and Fees

Contract Labor – 1099 NEC's

**Depletion – A charge against profits for the use of natural resources.
It is most commonly used in the mining, timber, ...**

Depreciation - The portion of a fixed asset that has been considered consumed in the current period

Employee Benefit Programs-Health Plans, Accidental Death, Group Term-Life Insurance

Insurance – General Liability, Commercial Vehicle, Renters Insurance, etc.

Interest – Loan Interest, Credit Card Interest

**Mortgage-Paid to Bank
Paid to Others**

Legal and Professional Fees-Accountants and Attorneys





Office Expense – Office Supplies and Postage

**Pension and profit-sharing plans-for the benefit
Of employees.**

Rent or Lease

**Vehicles, Machinery and Equipment
Other Business Property (Real Estate)**

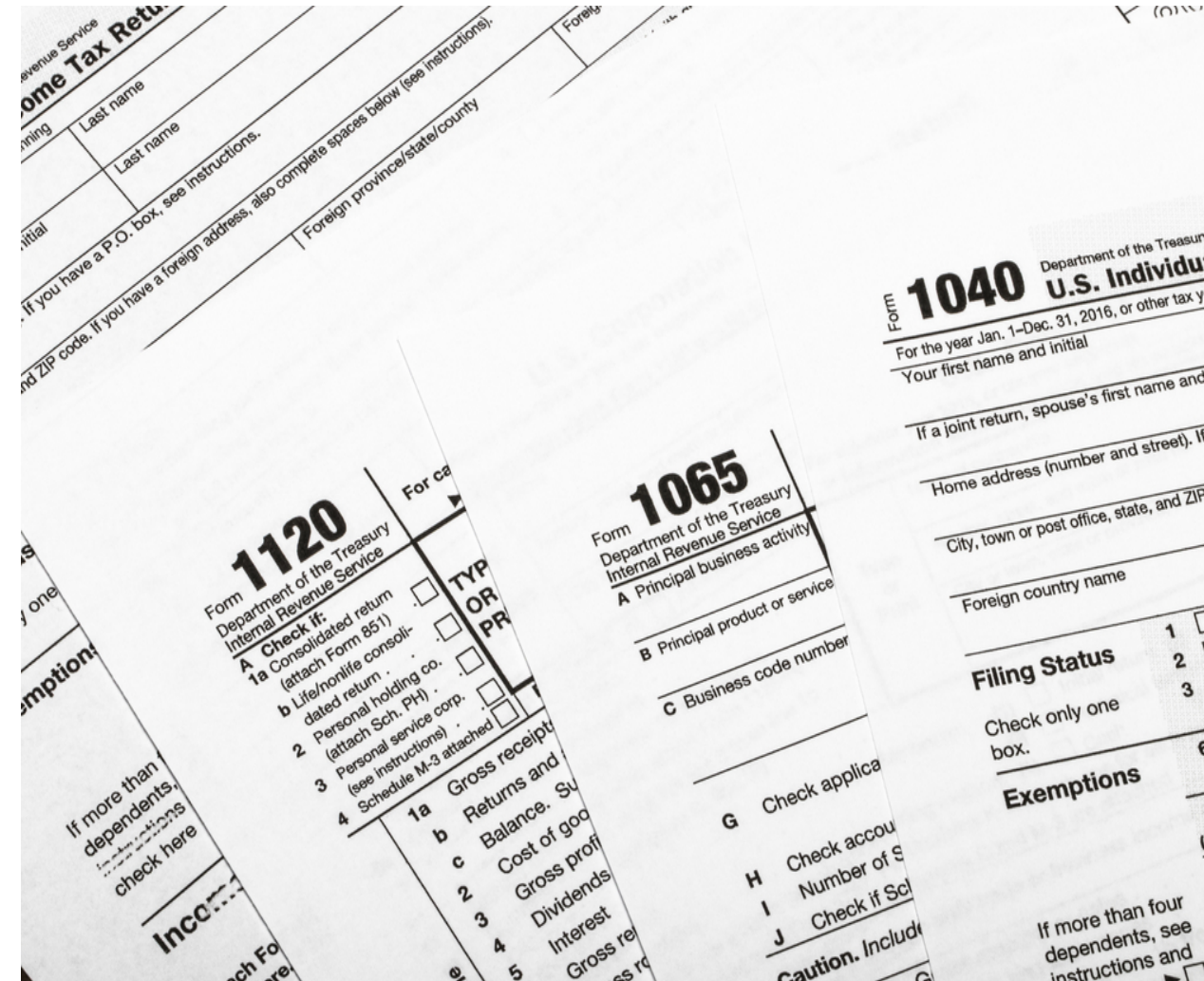
**Repairs and maintenance - Deduct the cost of
incidental repairs and maintenance that do not
add to the property's value or appreciably
prolong its life.**

**Do NOT deduct the value of your
own labor.**

Supplies – used in business

Taxes and licenses - You can deduct the following taxes and licenses on this line.

- **State and local taxes imposed on you as the seller of goods or services.**
- **Real estate and personal property taxes on business assets.**
- **Licenses and regulatory fees for your trade or business paid each year to state or local governments.**
- **Social security and Medicare taxes paid to match required withholding from your employees' wages.**
- **Federal unemployment tax paid**
- **State unemployment tax**



Do NOT deduct:

Federal income taxes, including your self-employment tax. However, you can deduct one-half of your self-employment tax on Schedule 1

- **Taxes on your home or personal use property.**
- **State and local sales taxes imposed on the buyer that you were required to collect and pay over to state or local government**

Travel and meals:

**Travel – Airfare, Hotel, Taxi, Parking
Deductible Meals – See next slide**

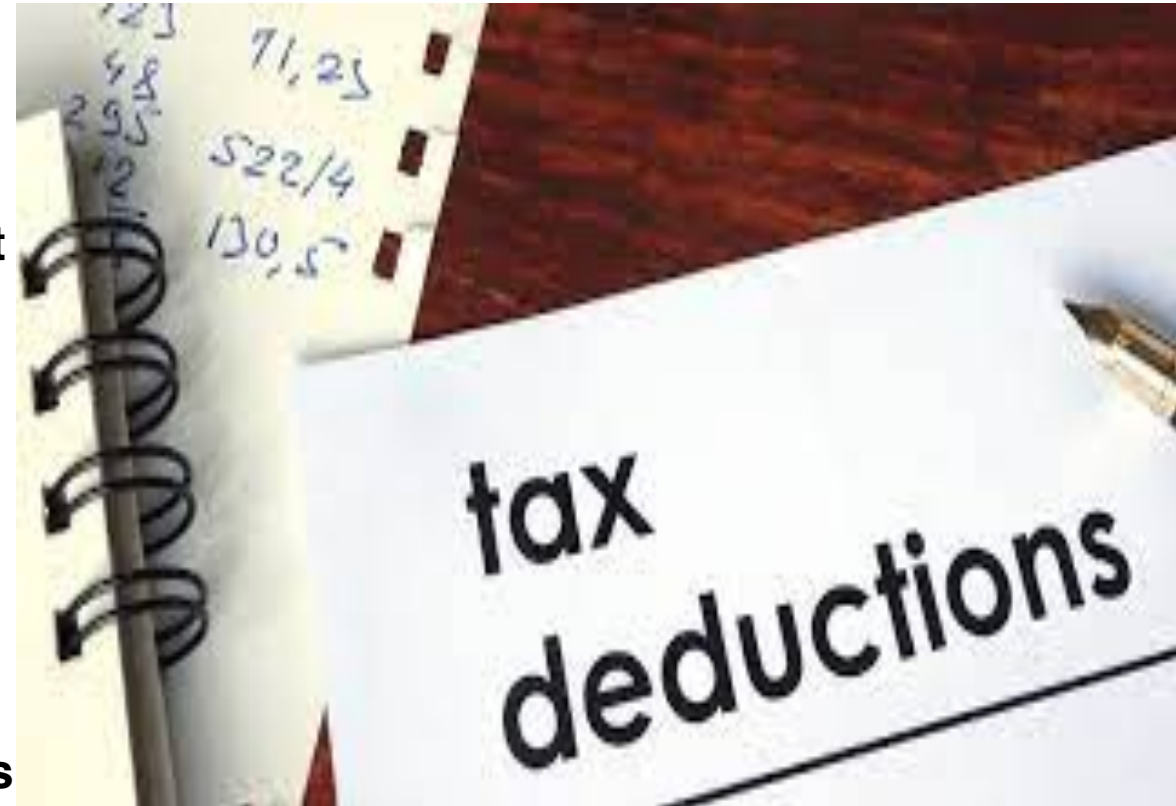
Utilities – Cell Phone, business utilities only

Wages – Paid to employees.

Owner can never be an employee of the business

Other Expenses (Software, Dues and Subscriptions, etc.)

Energy efficient commercial bldg. deduction



Meals & Entertainment

Type of Expense	Deduction
Entertaining Clients (Concert tickets, golf games, etc.)	0% deductible
Business meals with clients	50% deductible
Office snacks and meals	50% deductible
Company-wide party	100% deductible





Actual Cost

You can use the actual cost of your meals to figure the amount of your expense before reimbursement and application of the 50% deduction limit. If you use this method, you must keep records of your actual cost.

Standard Meal Allowance

Generally, you can use the “standard meal allowance” method as an alternative to the actual cost method. It allows you to use a set amount for your daily meals and incidental expenses (M&IE), instead of keeping records of your actual costs. The set amount varies depending on where and when you travel.

If you use the standard meal allowance, you must still keep records to prove the time, place, and business purpose of your travel.

Do I need to keep my receipts?

Supporting documents include:

Receipts – copies are good as thermal receipts fade

Paid bills – marked paid by seller

Canceled checks

It is important to keep these documents because they support the entries in your books and on your tax return.





Tax Deductions for a Home Office

If you use part of your home exclusively and regularly for conducting business, you may be able to deduct expenses such as mortgage interest, insurance, utilities, repairs, and depreciation for that area. You need to figure out the percentage of your home devoted to your business activities, utilities, repairs, and depreciation.

Simplified Option	Regular Method
Deduction for home office use of a portion of a residence allowed only if that portion is exclusively used on a regular basis for business purposes	Deduction for home office use of a portion of a residence allowed only if that portion is exclusively used on a regular basis for business purposes
Allowable square footage of home use for business (not to exceed 300 square feet)	Percentage of home used for business
Standard \$5 per square foot used to determine home business deduction	Actual expenses determined and records maintained



Solopreneurs are responsible for paying estimated taxes.

Estimated taxes are paid on the NET income of your business.

Estimated taxes include payments for income tax and self-employment taxes.

25%-30% of NET Income is the recommended savings amount for income tax and self-employment taxes.



Self-employment tax is a tax consisting of Social Security (12.4%) and Medicare tax (2.9%)

Self-Employment Tax is 15.3%

Estimated Tax Due dates for 2024 are: April 15, 2024, June 17, 2024, Sept 16, 2024, Jan 15, 2025





Self Employment Taxes

Rate of 15.3% is calculated on 92.35% of your NET Income

50% of tax is a deduction on Schedule 1





Tennessee State Taxes

**All Tennessee Taxes are paid through
TNTAP**

Common Tennessee Taxes are:

Sales Tax

Franchise and Excise Tax

(only for LLC's and S Corp's)

**Business Tax – for companies
with gross receipts in excess**

of

\$100,000

