

# Tax Matters for Self-Employed & Small Businesses

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# Disclaimer

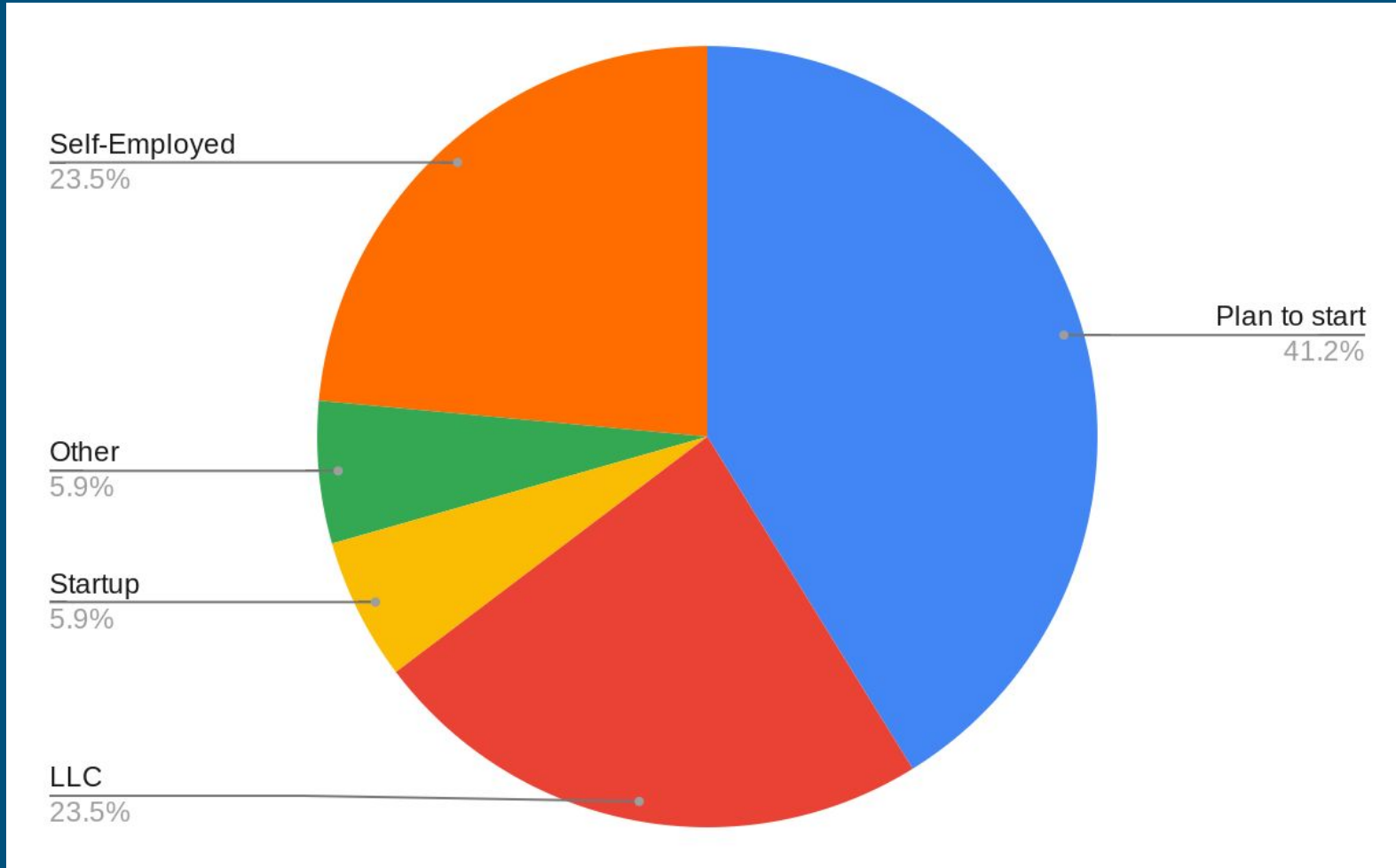
**This presentation is meant for educational purposes only.**

**All numbers and examples are for the 2024 Federal Tax.**

**It is not a specific investment, tax or legal advice.**

**Before taking any action on anything you see in this presentation,  
please consult with your tax, legal or investment advisor.**

# Stage of Business



## Registration Survey Results

# Agenda

## Understanding Tax Implications of Self-Employed & Small Businesses

- **Choosing the Right Entity**
- **Tracking Income & Expenses**
- **Payroll Taxes**
- **Estimated Tax Payments**
- **Retirement Plans**
- **Tax Filing**
- **Planning Opportunities**
- **Q & A**

# Which Entity Type: Sole-Proprietar, LLC, S-Corp or C Corp?

# Choosing the Right Legal Entity

Sole-Proprietorship  
(Self Employed /DBA)

General Partnership

Limited Partnership  
(LP/LLP)

Limited Liability Corporation  
(LLC)

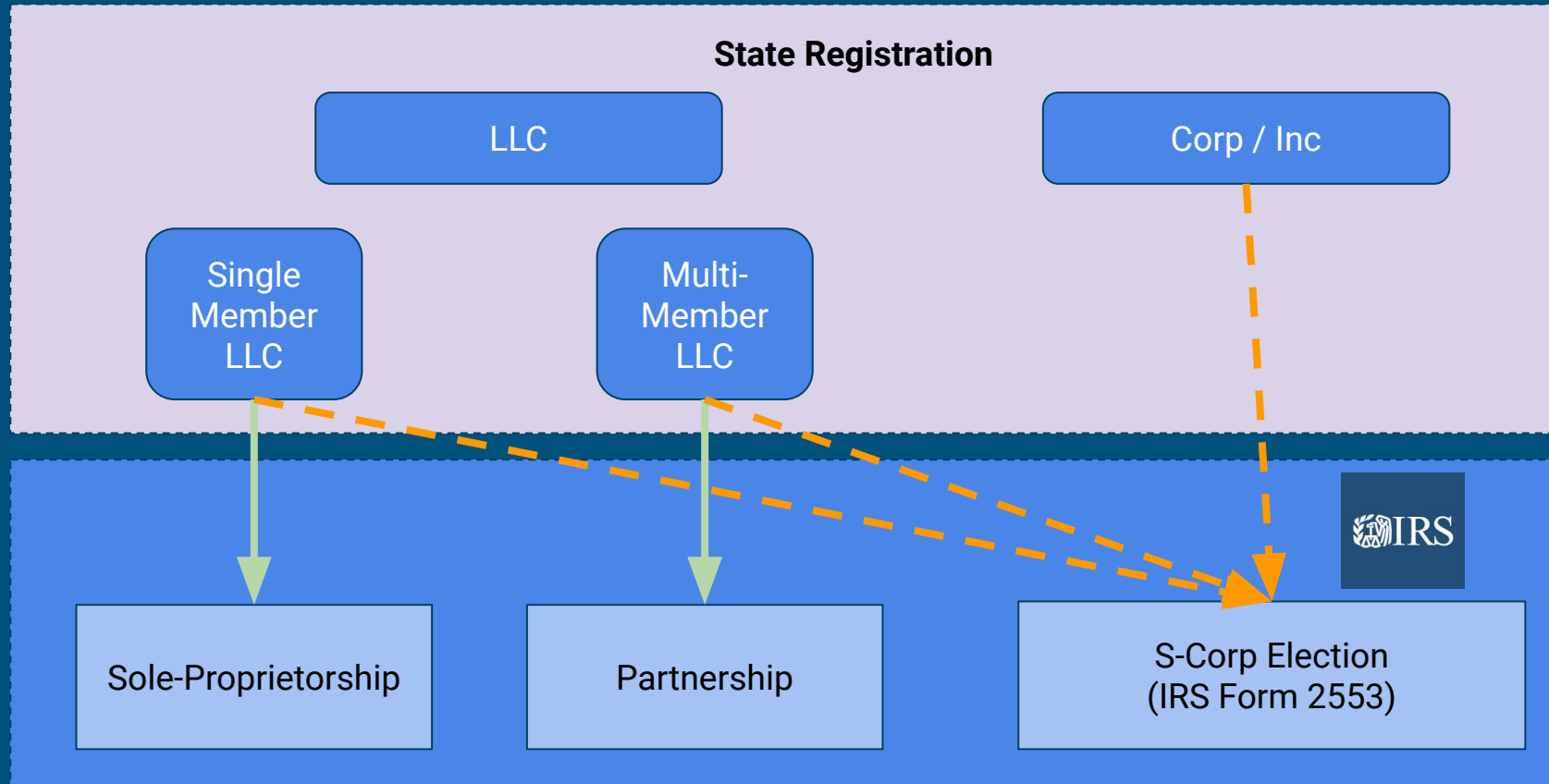
C Corporation  
(Inc)

# Features by Entity Type





# What about S-Corp?



## Key Features of S-Corp

- Pass-Through federal income taxes
- Cannot exceed 100 shareholders
- Need separate bank account and separate records
- Annual \$800 minimum franchise tax

# Accounting

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# Business Income

Get Employer ID No. (EIN) or Tax ID No. (TIN)

For sale of goods, need a Reseller ID (state tax)

- Self-Employed / LLC
  - 1099-NEC, 1099-MISC & 1099-K
  - Invoice Clients & Get Paid
- Corp (S-Corp or C-Corp)
  - Invoice Customers/Clients & Get Paid

# Tracking Business Expenses

- Business License, Legal Fees
  - Start-up Expenses, Local Taxes
- Office Rent
  - Home Office Deduction
- Office Expenses
  - Internet, Business/Mobile Phone(s), Accessories
  - Business Insurance
- Software
  - Subscription, Lease
- Car/Vehicle
- Travel & Conference
- Advertising & Marketing
  - Website, Social Media Advertising
- Employee Benefits
  - Medical, Professional Membership
- Supplies
- Meals
  - limited to 50%
- Entertainment

## Home Office Deduction:

- Dedicated Exclusive Work Area + Storage
- Simple Method: \$5 per Sq. Ft. or
- Actuals: % of Actual Expenses
  - Expenses may include mortgage interest, insurance, utilities

## Business Use of Vehicle:

- Standard Mileage - 67c per mile or
- Actuals - based on miles
  - gas, oil, repairs, tires, insurance, registration fees, licenses, and depreciation (or lease payments)
- One-time \$25,000 expense for vehicle weight over 6,000 lbs
- Clean Vehicle Credit


## Medical Premium:

- Deductible for Self-Employed
- Employer Premium Deductible for Corp

# Tracking Direct & Indirect Expenses

- Depreciable Assets

- Capital Equipment
- Computer Assets
- Software Purchase
- Business Vehicle



Section 179 Deduction (same year)  
CA deduction limited to \$25,000

- Cost of Goods Sold (Direct Costs)

- Inventory Purchase / Transactions
- Direct Sales Staff
- Commissions
- Card/Collection Fees

# Bookkeeping Tools

- Wave Apps
- Intuit Quicken for Self-Employed & Quickbooks
- Zoho
- Odoo
- Zipbooks

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# Payroll Taxes

## (Paying Yourself & Employees)

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# W-2 Employee Payroll Taxes (S Corp & C Corp)

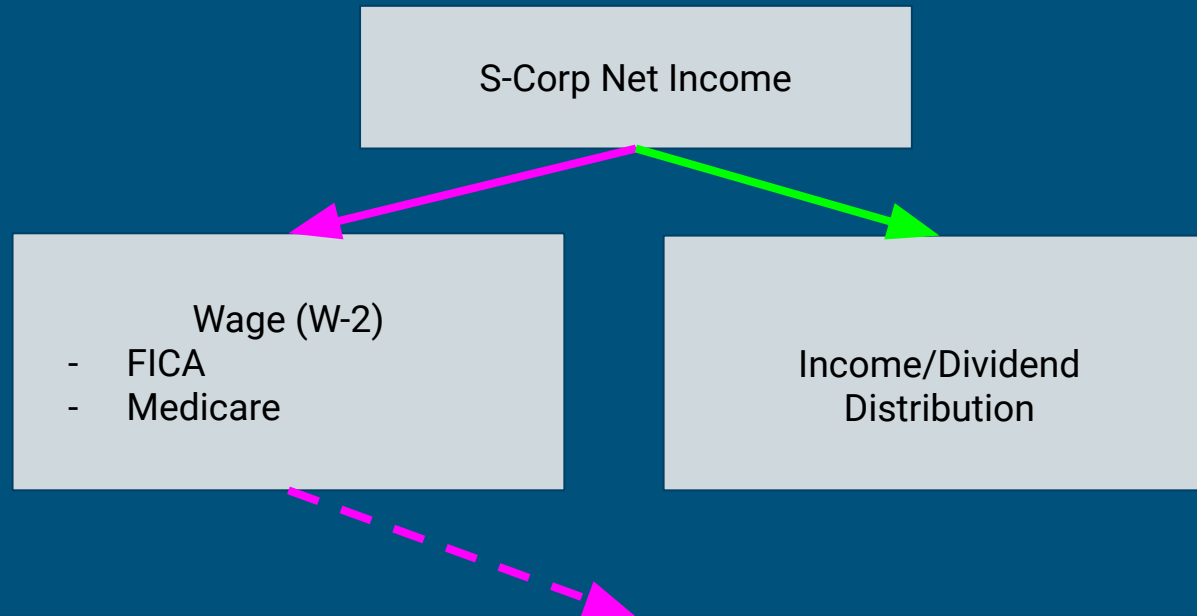
- Employer and Employee Contributions
  - Federal Payroll Taxes EE & ER
    - FICA (6.2% up to \$168,000)
    - Medicare (1.45%)
- Employee Deductions
  - Fed Income Tax
  - State Income Tax
  - State Disability Insurance
- Employer CA State Taxes
  - Unemployment Insurance (annual max \$434)
  - Employment Training Tax (\$7)

- Complicated Calculations
- I-9, W-4 (Withholding)
- Monthly/Quarterly Filing Requirements
- Year-End Reconciliation
- Year-End Forms to be sent

**Tip:** Avoid Errors by using Payroll Software  
such as Gusto, Intuit Quickbooks



# S-Corp (Split) Income



## Reasonable Compensation:

S corporations **must pay reasonable compensation** to a shareholder-employee in return for services that the employee provides to the corporation before non-wage distributions may be made to the shareholder-employee.

# Hiring a Child/Family Member (< 18 years)

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- Child/Family Member as an independent contractor
- Exempt from FICA and Medicare taxes **under age 18 years**
- Pay up to \$14,600 in 2024 with no impact on child's taxes
  - Amount is under Standard Deduction for Single
  - **Reduce Net Income of the Business**
- No need to file taxes for child (unless there is other income)
- Contribute \$7,000 to Child's (Custodial) Roth IRA in 2024

## Benefits:

- Start Savings Early
- Compounding for Longer Period
- No Penalty on Early Withdrawal of Contributions

# Estimated Tax Payments

# Estimated Taxes

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- Estimate Net Income / Capital Gains for each Quarter
- Estimate Self-Employment Taxes for each Quarter
  - Self-Employment Taxes
  - Payroll Taxes (12.4% FICA of upto \$168,600 + 2.9% Medicare)
    - Employer and Employee Taxes
  - Federal Income Taxes (Tax bracket based on Annual Projected Income)
  - State Income Taxes (Tax bracket based on Annual Projected Income)
- Due Dates for Estimated Taxes in 2024
  - April 15, June 17, Sep 16 (no Q3 for CA), Jan 15

# Retirement Plans

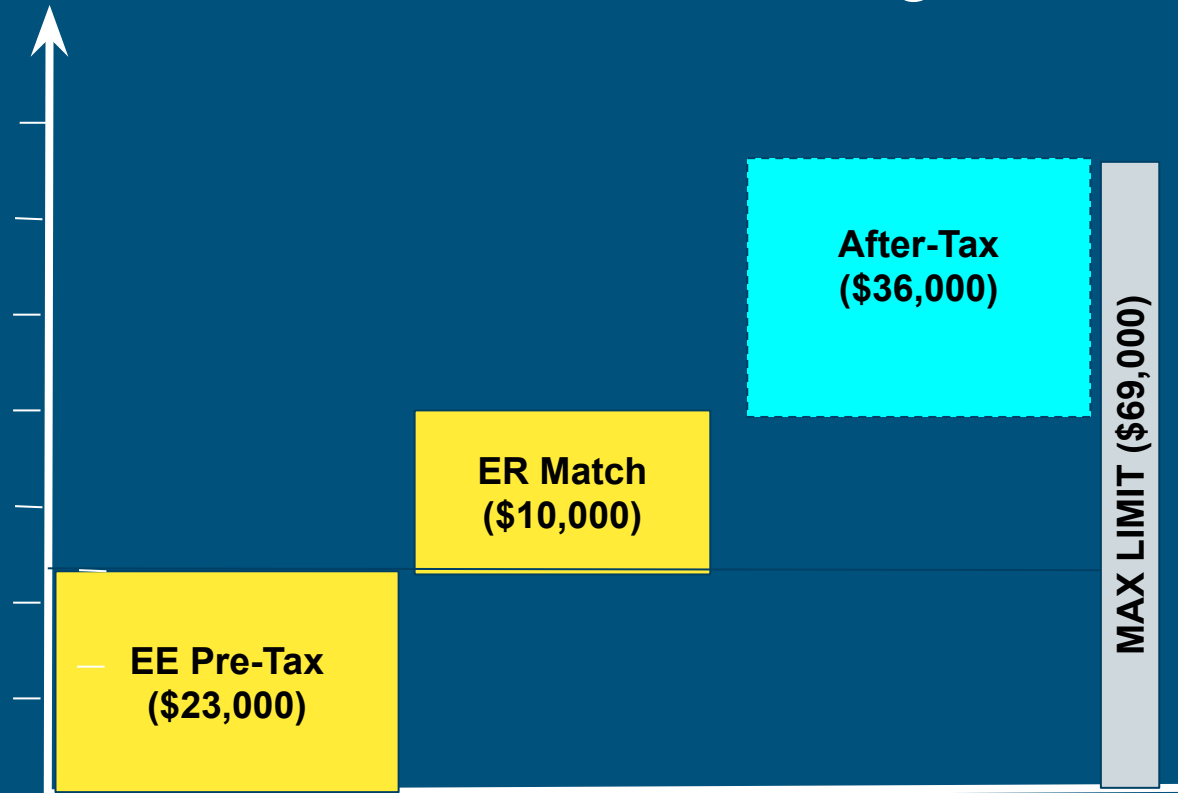
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# Self-Employment / S-Corp Plans

	SEP IRA	SIMPLE IRA	Solo 401k
Employer Contribution	25% of Net Earnings after SE Taxes	Up to 3% of Employee Contribution	25% of Net Earnings after SE Taxes
Roth Option	N/A in 2024*	N/A in 2024*	Yes
Employee Deferral		\$16,000	\$23,000*
Catch-Up age 50+	N/A	\$3,500	\$7,500*
<b>Plan Maximum</b>	<b>Max \$69,000</b>		<b>\$69,000 + \$7,500</b>
Contribution Deadline	April 15	April 15	<b>April 15 but the plan must be set up before Dec 31, 2024.</b>

# Solo 401(k) Example

Sara, age 48, has a contract job,  
Net Earnings = \$150,000 in 2024



Net Earnings	= \$150,000
Pre-Tax Contribution	= \$23,000
Profit-Sharing (arbitrary)	= \$10,000
After-Tax Contribution	= \$36,000
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<b>Total</b>	<b>= \$69,000</b>

**Convert After-Tax to Roth**

EE = Employee, ER = Employer (self)

# Tax Filing

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# Federal & State Tax Filing

- Federal

- Self-Employment Income and LLCs (single member/disregarded entities)
  - Schedule C
- S-Corp
  - 1120S (due by March 15)
  - K-1 → Schedule C
- Qualified Business Income Deduction

- CA State

- Min Franchise Tax \$800 (except for self-employed)
- LLC
  - File CA Form 568
- S-Corp & C-Corp
  - CA Form 100S

# Planning Opportunities

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# Planning Opportunities

- Tax Election (Schedule C, S-Corp or C Corp)
- Control Timing of the Income & Expenses (cash method)
- Business Expenses
  - Car
  - Meeting and Travel Expenses
  - Section 179 vs. Depreciation
  - Paying Oneself (W-2) & Taxes
- Retirement Savings
  - Savings up to \$69,000 + \$7,500 (age  $\geq$  50) with Solo 401(k)
  - Huge Pre-Tax and Roth Savings
- Employing a Family Member / Child
- Qualified Small Business Stock (QSBS)
  - Capital Gains exempt from Federal Taxes

# Q & A

- I have 3 properties - 1 in California, 1 in Florida, 1 in Ohio. I live in California and have a W-2 Job as a Data Scientist with a tech firm. I would like to protect my assets and am planning to do the following ...
- Want to start C2C job but unaware of the process, benefits

♥Happy Mother's Day!♥



Schedule a complementary,  
no-obligation initial consultation  
[encoverpf.com/schedule](https://encoverpf.com/schedule)

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Encover Personal Finance

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**Debt Management**  
**Saving for Emergency**  
**Employer Benefits (FSA,HSA,401k,ESPP)**  
**Equity Compensations (RSU,ISO,NSO)**  
**Insurance Needs (Life, Disability, LTC)**  
**College Savings (529-plans)**  
**Home Purchase/Refinance**  
**Investment Management**  
**Retirement Modeling and Planning**  
**Tax Analysis and Planning**  
**Estate Planning**  
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