

ART OF NUMBERS: EMPOWERMENT THRU EDUCATION

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ASSUMPTIONS

(INSPIRED BY HADASSAH DAMIEN [HTTPS://WWW.RIDEFREEFEARLESSMONEY.COM/](https://www.ridefreefearlessmoney.com/))

Coming into today's workshop, I am operating from the following assumptions and values:

- Everyone deserves to have resources.
- Capitalism is an unjust economic system and the tax code upholds it.
- There is no perfect way to run your business. Perfectionism is a value of white supremacy and meant to make people feel that they are not “doing it right”.

**Choosing to be a business owner, means you are
choosing to write your financial story, instead of having it
written for you.**

SELF-EMPLOYED VS. EMPLOYEE

It's all about the relationship.

- When you are an employee, each time you are paid there are taxes taken out (withheld) from your paycheck. Your employer pays those taxes to the IRS, Oregon, etc., on your behalf. This is the reason why your paycheck is less than your hours times your wages. Also, your employer directs and controls when, where and how you work.
- When you are self-employed (aka free-lance, independent contractor, small business owner, etc.) and receive payment for your services or sale of goods NO taxes are withheld from your income. In other words, if you bill for 10 hours of labor at \$25/hr, then you receive \$250 (not \$250 less taxes). Also, you control the when, where and how you work.

PART 1

Business Ownership 101

WHAT TYPE OF BUSINESS DO YOU OWN?

Sole Proprietor

\$0

ssn/ein

Sole Proprietor DBA

(DBA - *doing business as*)

varies by county

ssn/ein

Single Member LLC

(LLC - *limited liability company*)

\$800

ein

S-Corporation LLC

\$800

ein

Partnership (DBA/LLC)

varies/\$800

ein

HOW DO YOU REGISTER YOUR BUSINESS IN CALIFORNIA?

1. Choose a business structure. (If you are a Sole Proprietor you should be able to skip to step #5)
2. Go to the California Secretary of State website (<https://www.sos.ca.gov/business-programs/business-entities/starting-business/>) to set up an account and register your business online. This for the DBA/FBN or LLC, specifically.
3. Go to the IRS website and search for “Apply for an EIN” to get a free EIN. (optional for Sole Props/DBAs)
4. Once you receive the acceptance email from the Secretary of State and your EIN you can take this information to your bank and set up a business bank account. (If you are a Sole Proprietor then you should be able to use your Legal Name and SSN to set up a separate checking account for your business transactions.)
5. All businesses (Sole Proprietor, DBA, LLC) should check in with the Franchise Tax Board (Small business liaison) <https://www.ftb.ca.gov/help/business/small-businesses.html> and the CA City and County Sales and Use Tax <https://www.cdtfa.ca.gov/taxes-and-fees/sales-use-tax-rates.htm>

TAXES ARE A PAY AS YOU EARN SYSTEM

According to the IRS, when you receive payment for services as a self-employed person or employee you are supposed to pay taxes in real time. As an employee, your boss takes care of the taxes. If you are self-employed, who handles the taxes for you?

Which taxes are you supposed to pay?

How do you pay these taxes?*

When do you pay these taxes?*

*we'll come back to this later.. it's called Estimated taxes or Quarterly taxes

WHICH TAXES DO CALIFORNIA-BASED SMALL BUSINESSES PAY?

1. Federal Income Tax
2. State Income Tax
3. Social Security Tax
4. Medicare Tax
5. Sales Tax
6. County or City Taxes
7. Payroll Tax if you have employees
8. Property Taxes if you have over a certain amount of “Assets”

***Please reach out to local offices and the CA franchise board for more info**

TAXES FOR THE SELF-EMPLOYED ARE MORE?!?!?

As a self-employed person you pay **more** Social Security and Medicare Tax

Example (these are approximate amounts):

An employee earns \$10,000 and pays \$750 in ss/mc tax (7.5% of their wages).

A self-employed person earns \$10,000 after expenses and pays \$1500 in ss/mc tax (15% of profit).

This is because employers are responsible for matching their employees' ss/mc tax. when you work for yourself you pay for ss/mc as an employer (7.5%) + employee (7.5%) so your ss/mc tax is doubled.

TAXES FOR SELF-EMPLOYED
PEOPLE ARE BASED ON NET
INCOME (INCOME MINUS EXPENSES),
SO...THE MORE EXPENSES
YOU HAVE THE LESS TAXES
YOU WILL OWE!

PART 2

Income and Expenses for Creatives

WHAT DO WE MEAN BY "INCOME" FOR SELF-EMPLOYED/SMALL BUSINESS?

- Business income comes in many forms: cash, check, credit card, paypal, square, venmo, etc. Also, taxable grants, crowdfunding, royalties, gallery sales, etsy sales, freelance design work, etc., in exchange for sale of goods or service.

*Sometimes you will receive a 1099-NEC/MISC/K form that states how much you earned from a specific customer or third party merchant service (i.e. paypal, square, etc). You are responsible for claiming your income whether or not you receive a form.

WHAT IS NOT INCOME FOR THE SELF-EMPLOYED?

- Investing money in your business (aka owner investment)
- Loans received by your business

*These items need to be tracked for cash flow purposes, but they are not taxable income.

ISSUING A 1099-NEC OR 1099-MISC

Many of you will need to issue a 1099-MISC to the landlord at your studio space or contractor you pay to help you *IF you pay them \$600 or more in a year. Follow these steps for preparing the 1099-MISC or 1099-NEC: ***(For 2022, if you pay a contractor/landlord via a third-party payment processor you will not have to issue a 1099, instead the payment processor will issue it directly to your vendor. For more info see addl slides.)***

*Give your landlord or contract worker a W-9 Form <https://www.irs.gov/pub/irs-pdf/fw9.pdf> to fill out and return to you. (includes name, tax ID# and address of the person you are paying)

*Keep track of the Rent or Contract Labor expenses from Jan 1st - Dec 31st. Then, tally up the total paid in the tax year.

*The 1099-MISC/1099-NEC needs to be prepared and filed with the payee, the IRS and OR by January 31st of the following tax year (for the 2020 tax year it needs to be issued by January, 31st 2021). You can file this form digitally or on paper. There are a variety of methods for filing 1099's.

For more info check out: <https://www.shiftaccountingllc.com/1099>

WHAT DO WE MEAN BY "EXPENSES" FOR THE SELF-EMPLOYED?

***The IRS explains it this way:** "To be deductible, a business expense must be both ordinary and necessary." *In other words, anything you do that relates to your work, that stimulates or enhances your business, nurtures your professional creativity, improves your skills, wins you recognition, or increases your chances of making a sale is a possible business expense and therefore deductible.

*This interpretation of *Business Expenses* was gleaned June Walker <http://junewalkeronline.com/>

STEPS FOR MAXIMIZING EXPENSES

You are self-employed – so from this moment on, whenever you reach into your pocket for money, write a check, or slip out your credit card, be aware that you may be engaging in a business transaction. Change your brain circuits to accommodate your new mindset.

DEFINE YOUR BUSINESS BROADLY

The more multi-faceted and inclusive your field of endeavor the more wide-ranging your expenses and thereby the less taxes you'll end up paying! (Multimedia Artist)

WORK LIFE VS. PERSONAL LIFE

Sometimes there isn't a well-marked difference between your work life and personal life, so paying closer attention to your day-to-day purchases might help you catch expenses you would have otherwise assumed to be "personal". (Dinner Party)

*This slide also gleaned from the fabulous June Walker <http://junewalkeronline.com/>

TYPES OF EXPENSES...

- **Advertising:** business cards, website, facebook ads, instagram ads
- **Legal and Professional Services:** hiring a lawyer, consultant, bookkeeper
- **Fees:** bank charges, atm fees, cc fees, paypal and square fees
- **Supplies:** general consumables
- **Office Expenses:** pens, paper, printer ink
- **Dues and Subscriptions:** memberships to organizations, creative cloud subscription, dropbox, etc.
- **Education and Research:** continuing education (i.e. this class!), workshops, books
- **Insurance:** business insurance
- **Rent:** paying studio rent (*1099-MISC should be issued) outside of your home, practice space
- **Taxes and Licenses:** cost to register your business as a DBA or LLC, local taxes, etc.
- **Utilities:** business use % of your personal cell phone and internet (*we will talk more about this during the home office/studio slide)

COST OF GOODS VS. SUPPLIES



CALCULATING COST OF GOODS SOLD

Beginning Inventory on January 1st if it's your first year in business = \$0

Purchases of Fabric during the year = \$1500

Purchases of Hardware during the year = \$750

Purchases Packaging for finished goods = \$450

Value of Ending Inventory on December 31st (this includes unsold finished products, raw materials and packaging) = \$1700

Time to do some math....

*First, you add the Starting Inventory to all of the Purchases made in the tax year

$$\$0 + \$1500 + \$750 + \$450 = \mathbf{\$2700}$$

*Then, you take the Ending Inventory and subtract it from the total Cost of Goods since the leftover Inventory has NOT sold yet

$$\$2700 - \$1700 = \mathbf{\$1000 \text{ Cost of Goods Sold}}$$

So, you are allowed to expense the value of your Cost of Goods SOLD of \$1000. The remaining \$1700 is carried over to next year. You are only allowed to write off your Cost of Goods once they are sold.

EQUIPMENT

individual items that cost
\$1000 or more



LOCAL MEALS

can't be alone

business
purposes

keep receipt

*for 2021 and 2022 meals
are 100% deductible



TRAVEL EXPENSES



Airfare

Lodging

Rental Car

Bus / Train / Cab

Convention Fees (travel expense or education)

Meals (all meals, you can eat alone, keep receipt, actual expense or per diem

<https://www.gsa.gov/travel/plan-book/per-diem-rates/per-diem-rates-lookup>)

++++++

What about travel when it's mixed - business and personal?!?!?

**If the trip is more than 50% personal, then the travel expenses are not deductible, but individual business expenses are.*

**If the trip is more than 50% business, then deduct the business % of your total travel expenses.*

**If you're trip abroad and the trip is 75% or more business, then the whole trip is deductible.*

**information provided by @taxesforartists on Instagram*



STUDIO / OFFICE

expenses...



home office

rent
utilities
repairs
cleaning
insurance
decor



**office outside the
home**



AUTO EXPENSES

Mileage Deduction

Step 1- You will need to track

business miles (deductible) / commuting miles (non-deductible) / personal miles (non-deductible)

Step 2

Multiply business miles x mileage rate to get your mileage deduction and you're DONE!

no implication if you sell your vehicle

Actual Expenses

Step 2

You will **also** need to track auto expenses i.e. gas, oil, repairs, cost of vehicle, insurance

Step 3 -

Figure out your business-use % by comparing business miles to total miles. once you have your %-use, multiply the % by all of your auto expenses to get your deduction

tax consequences if you sell vehicle
can't change to mileage if 1st year deduction is actual

PART 3

Recordkeeping

KEEPING TRACK OF INCOME AND EXPENSES

KEEP YOUR RECEIPTS - Try and get in the habit of saving paper/digital copies of your receipts for business expenses. You can make a folder in your email account titled “20xx Tax Year Receipts” and put all the digital receipts in that folder. You can use a folder or box for your paper receipts. Just make sure to save them somewhere for 7 years! *If you forget to get a receipt don’t worry, you can still take the expense!

OPEN A BUSINESS BANK ACCOUNT - This is one of the best and easiest ways to track your business income and expenses. When you earn money as a self-employed person you deposit it in the business account and when you make a business expense you use the business account. There’s your recordkeeping! You still need to keep receipts as backup proof in case of an audit, but this is a great start and very helpful for getting ready for taxes.

USE A CALENDAR - This can be paper or digital and is very helpful for tracking miles, meals, travel, etc. This record is also helpful in case of an audit since it helps corroborate your whereabouts for business purposes.

USE TOOLS - Start using tools like a Spreadsheet, [MileIQ App](#), [Wave App](#) (free bookkeeping software), [Quickbooks](#), etc for keeping track of money in and money out of your business. Paper is fine too! If you prefer to keep paper records then buy a notebook and start writing down your income and expenses.

SPREADSHEET FOR TRACKING INCOME AND EXPENSES

Each line row is a new transaction. You enter Income in the Green Column and Expenses in the Blue Columns according to Expense “Category”.

[illegible]

PROFIT AND LOSS

listing of income and expense
categories and amounts earned or
spent

short term - tracks profits margins so you
can tell if you are charging the right amount
for your services/goods

long term - tax prep, retirement savings,
planning for your future

Profit & Loss Statement

	Jan
Income	\$0.00
<i>Costs of Goods (COGS)</i>	\$0.00
Gross Profit	\$0.00
<i>Rent</i>	\$0.00
<i>Advertising</i>	\$0.00
<i>Equipment</i>	\$0.00
<i>Insurance</i>	\$0.00
<i>Contract Labor</i>	\$0.00
<i>Office, General Supplies</i>	\$0.00
<i>Wages Paid</i>	\$0.00
<i>Taxes & Licenses</i>	\$0.00
<i>Travel</i>	\$0.00
<i>Local & Travel Meals</i>	\$0.00
<i>Phone or Utilities</i>	\$0.00
<i>Fees</i>	\$0.00
<i>Other & Misc.</i>	\$0.00
<i>0</i>	\$0.00
Total Expenses	\$0.00
Profit or Loss	\$0.00

SCHEDULE C

7	Gross income. Add lines 5 and 6	7	3,000
Part II Expenses. Enter expenses for business use of your home only on line 30.			
8	Advertising	8	295
9	Car and truck expenses (see instructions)	9	
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	650
14	Employee benefit programs (other than on line 19)	14	
15	Insurance (other than health)	15	
16	Interest:		
	a Mortgage (paid to banks, etc.)	16a	
	b Other	16b	
17	Legal and professional services	17	275
18	Office expense (see instructions)	18	
19	Pension and profit-sharing plans	19	
20	Rent or lease (see instructions):		
	a Vehicles, machinery, and equipment	20a	
	b Other business property	20b	350
21	Repairs and maintenance	21	
22	Supplies (not included in Part III)	22	50
23	Taxes and licenses	23	
24	Travel, meals, and entertainment:		
	a Travel	24a	
	b Deductible meals and entertainment (see instructions)	24b	4
25	Utilities	25	100
26	Wages (less employment credits)	26	
27 a	Other expenses (from line 48)	27a	
	b Reserved for future use	27b	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a	28	1,724
29	Tentative profit or (loss). Subtract line 28 from line 7	29	1,276

PART 4

Tying up loose ends

ISSUING A 1099-NEC OR 1099-MISC

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FILING TAXES VS PAYING TAXES

FILING TAXES - This is an annual event. Personal income taxes are filed on or by April 15th (or October 15th if you file a 6-month extension). It's at this time that you are able to figure out if you owe money or are due a refund.

PAYING TAXES - Taxes are a pay as you earn system. That means that when you receive income, you are supposed to withhold the taxes and pay them to the IRS and Oregon. How does this work if you are self-employed? Instead of sending a little money every time you make money, the IRS asks that you send them money on a quarterly schedule (aka estimated tax payments).

QUARTERLY TAX PAYMENT SCHEDULE AND WAYS TO PAY

QUARTERLY SCHEDULE

Q1 for the tax year: April 15th

Q2 for the tax year: June 15th

Q3 for the tax year: September 15th

Q4 for the tax year: January 15th of following year

If you miss payments or payments are late you could be assessed an underpayment penalty depending on how much you end up owing in taxes for the year.

WAYS TO PAY

CHECK: You can make these payments by sending a check with an estimated payment voucher that you can find online

ELECTRONICALLY: You can pay online thru the EFTPS system

California has both a voucher and online payment system as well. <https://www.ftb.ca.gov/pay/>

WHAT HAPPENS WHEN I GET A LETTER ABOUT MY TAXES?

DON'T

Hide it

Rip it up

Send money

DO

Open it

Read it

Call the number on the letter

Ask for help

HOW DO I FIND A TAX PERSON OR BOOKKEEPER?

Ask your community. I find that many of my questions can be answered by asking people I know and trust for referrals. If that doesn't work then do some research to find local small businesses that offer taxes and bookkeeping services. You don't need a CPA for these things. Often CPAs are not in-tune with the needs of small business, nor are their prices.

***Taxes for Artists** <https://www.taxesforartists.com/> and on IG @taxesforartists

***Money Witch** <https://www.healyourfinances.com/> and on IG @money.witch

FREE AND LOW COST SERVICES FOR SMALL BUSINESS

California offers a variety of low-cost and free services for small businesses.

Depending on the complexity of your taxes and your income level, you might be eligible to have your taxes done for free thru the following programs: Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE), United Way, etc.

You can check out the SBA, SCORE, SBDC, etc to see what organizations offer free and low cost business counseling and bookkeeping support.

**THANK YOU FOR
COMING!**

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ADDITIONAL INFORMATION:

- **OWNER PAY FOR SOLE PROP/SMLLC**
- **PENALTIES + INTEREST**
- **CHANGES TO 1099 REPORTING FOR 2022**

OWNER PAY (AKA OWNER'S DRAW)

When you are the sole owner of a Sole Prop / Single Member LLC, your pay is called an Owner Draw.

- How can you take a draw?
An owner's draw can come in the form of a check, cash or direct transfer from the business bank account to a personal bank account.
- When can an owner take a draw?
Any time you like! You can pay yourself on a regular or irregular basis. It's completely up to you.
- How much can an owner take as a draw?
Any amount you like! As long as the bank account has enough money to cover the draw.
- What are the taxes on a draw?
This is a bit more complicated. When you pay yourself via an "Owner's Draw" it is NOT a business expense, but it does lower your cash flow. This is incredibly important to keep in mind when thinking about the overall health of the business. Owners can pay themselves whatever they want, whenever they want, however they want, but once the cash is spent it is no longer available come tax time. In other words, when you pay yourself, the net income of the business does NOT go down. This means that you will likely owe taxes on the amount of draws that you take in the tax year *if the business is profitable*. This is why record keeping is so important. We want to be able to see how much the business is earning and spending in order to do a proper tax projection at any given time in the year.

PENALTIES AND INTEREST

Failure to Pay Amount Shown as Tax on Your Return¶

If you don't pay the amount shown as tax owed on your return, the IRS calculates the Failure to Pay Penalty in this way:

- The Failure to Pay Penalty is 0.5% of the unpaid taxes for each month or part of a month the tax remains unpaid. The penalty won't exceed 25% of your unpaid taxes.
- The IRS applies full monthly charges, even if you pay your tax in full before the month ends.

Failure to File your Taxes by the due date

- The Failure to File Penalty is 5% of the unpaid taxes for each month or part of a month that a tax return is late. The penalty won't exceed 25% of the unpaid taxes.

As you can see from the above rates, failure to file your taxes is treated more harshly than a failure to pay your taxes on time. If you want more information about payment plans, check out the IRS and CA websites.

UPDATE ABOUT 1099 FORMS FOR 2022!!!!

If you work as an independent contractor and are paid through PayPal or by a similar third party settlement organization, are an Airbnb host, or sell goods on eBay, Etsy, or similar websites, you need to know about a little noticed changed in the tax reporting rules that goes into effect in 2022. Because of this change, it will be harder than ever to hide income from the IRS.

Starting January 1, 2022, the \$20,000/200 transaction rule comes to an end. Instead, a 1099-K will have to be filed by a TPSO like PayPal if a recipient is paid \$600 or more during the year for goods and services, with no minimum number of transactions requirement. Thus, even a single transaction for \$600 or more will require a 1099-K.

Also, starting in 2022, expect PayPal & others to ask you for your taxpayer identification number (TIN) (your Social Security number or Employer Identification Number). If the they fail to get your TIN, it will have to withhold 24% of your payments over \$600 and send the money to the IRS--a process called backup withholding.

For more information see the following articles: [New Tax Reporting Rules Start in 2022 for Payments by PayPal and other Third Party Payment Providers](#) and [Venmo Tax Law: Are you Filing Correctly?](#)