

October 26, 2022

Presented by:

Sarah Kearns

VtSBDC Advisor

And

Carol Feliciano

Owner of 802 Books and Taxes









Meet your Presenters





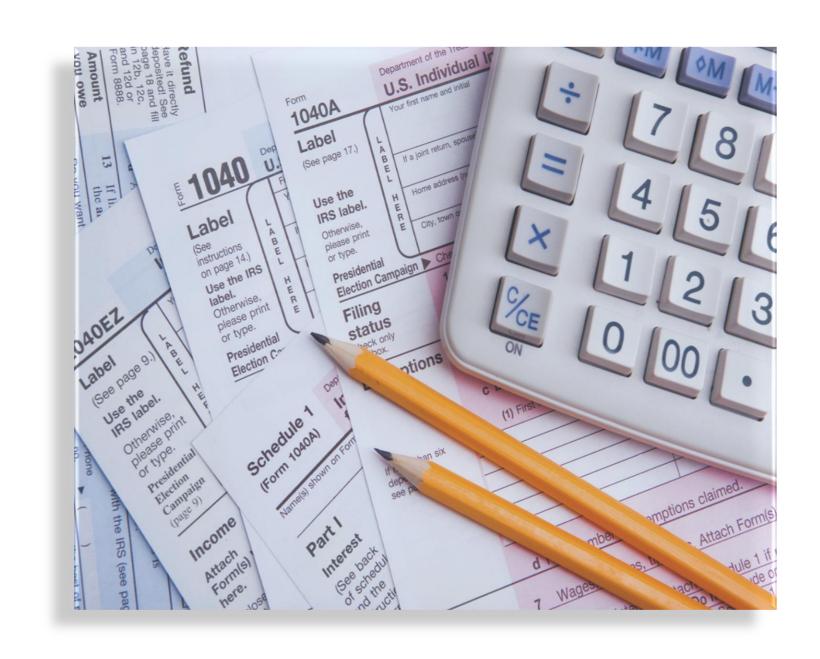


Carol Feliciano

Owner of 802 Books and Taxes

802 Books and Taxes is an online accounting firm that specializes in bookkeeping, accounting and business consulting. 802 Books and Taxes sole purpose is to guide business owners to profitability.

Carol@802booksandtaxes.com



Webinar Topics



SECTION 1: REVENUE AND EXPENSES

- Your Story
- Business Structures
- A day in the life of a creative business owner
- Translating the creative Entrepreneur's actions into financial transactions
- Tracking transactions
- Revenue
- Costs of goods sold
- Expenses
- Breaking off interest as a deduction
- The Profit and Loss Statement
- Suggestions





SECTION 2: QUICKBOOKS

- Accounting software options
- Pros and Cons
- The secret....





Webinar Topics



SECTION 3: COMPLIANCE

- Schedule C
- Taxes for the self employed
- Personal Income Taxes
- Estimated tax payments

SECTION 4: GETTING PAID

- How does a creative business get paid?
- How much money can you take out?
- Profitability vs cashflow they tell me I'm making money but why don't' I have any?

SECTION 5: QUESTIONS AND ANSWERS

- Reflecting Federal and state COVID-19 loans and grants
- Best practices for the Creative Entrepreneur
- Resources
- Disclaimer: This is not intended to be used as tax advice but rather just to inform you of the process. Nothing listed here can be used to make tax decisions. Please refer to your attorney or tax preparer for advice @ your own company.



Now we'd love to meet you!





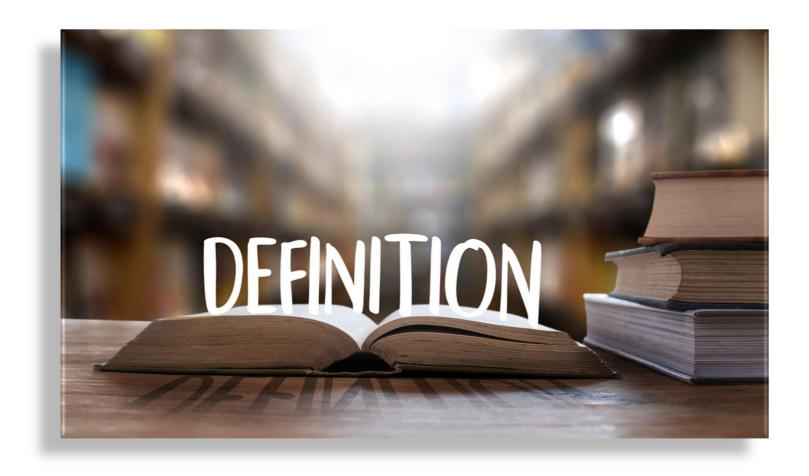
Section 1: Revenue and Expenses



WELCOME TO BEING A SMALL BUSINESS OWNER!

The Oxford Languages Dictionary defines business as:

"The practice of making one's living by engaging in commerce"





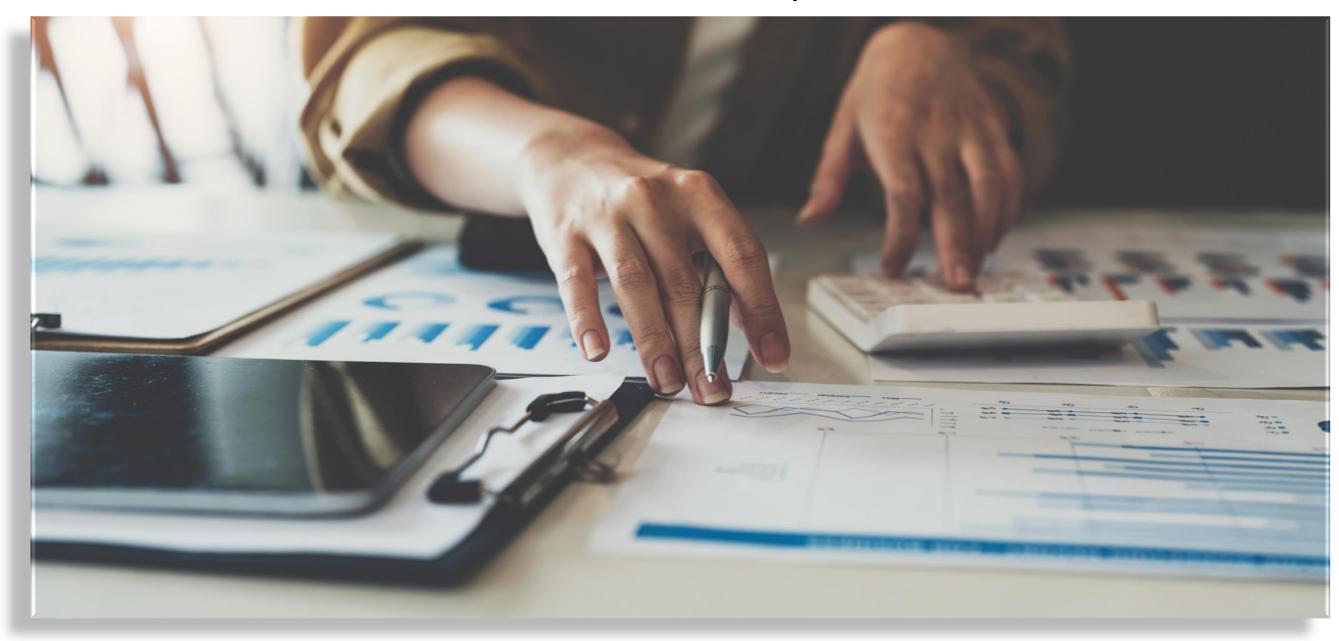
Business Structure	Ownership	Tax Form
1. Sole proprietor (Default)	One person	Schedule C
2. Partnerships	Two or more people	Form 1065
3. Limited Liability Company (LLC) One or more people	One or more	Schedule C
4. S Corporations	One or more	Form 1065S

There are many other Business structures available



THE PROFIT AND LOSS

an accountant's finished product





Tracking revenue and expenses

When you record and summarize business revenues and expenses you create a <u>Profit and Loss</u> financial statement.

What are the benefits of tracking?

- A profit and loss statement tells you where you stand financially over a period of time
- Knowing your financial status helps you to make better decisions about pricing, purchasing and selling
- Shows profitability or not
- Allows analysis
- You need this for your taxes





The life of a Creative Entrepreneur

The Crafty Woodworker

- Purchases supplies and materials
 - to create cutting boards
 - Tools
 - Wood
 - Glue
 - Clamps
- Sells cutting boards at
 - Craft fairs
 - To family and friends
 - On-line





Translating Creative Entrepreneur's Sales and Expenses

Sales/Income (Revenues)

Definition: Sales of products or services

Monies that you receive from a customer when you sell an item

Examples of how money is received:

- Cash
- Venmo
- Square
- Quickbook payments
- Checks
- Etc

It appears as money going **into** your checking account

Expenses (Deductions)

Definition: Purchases necessary to create your product or service Money paid out to vendors to create your product or to run your business

Example of how Money is paid out:

- Cash
- Credit card
- Debit card
- Venmo
- Check
- Etc

It appears as money going **out** of your checking account



Creatives R U Profit and Loss

January 1 - October 18, 2022

January 1 - October 16, 202	22
Income	
Sales	80,429.06
Total Income	\$ 80,429.06
Gross Profit	\$ 80,429.06
Expenses	
Advertising & Marketing	1,080.27
Bank Charges & Fees	1.49
Dues and Subscriptions	611.89
Education & Training	666.39
Insurance	1,845.89
Job Supplies	429.41
Legal & Professional Services	375.00
Membership Fees	198.00
Office Supplies & Software	2,769.49
Payroll Expenses	22,975.09
Rent & Lease	600.00
Taxes & Licenses	185.00
Travel	5.30
Total Expenses	\$ 31,743.22
Net Operating Income	\$ 48,685.84
Net Income	\$ 48,685.84





GOODIES YOU ALWAYS WANTED TO KNOW BUT WERE AFRAID TO ASK.....

- 1. You can't write off the principal part of your loan.
 - You can only write off the interest that you paid.

 The interest expense portion of a loan repayment is the amount that you can expense. The principal is used to pay down the loan and is not on the profit and loss
- 2. <u>Monies taken out of your business by the owner to be used for personal use have titles based on their business structure</u>
 - Sole Proprietor Owner's Draw
 - Partnership Partner's Draw
 - LLC Owner's Draw
 - S Corp shareholder distribution
- 3. Monies taken out of a company for personal use do not go on the profit and loss.
 - These transactions are listed in the equity section of the balance sheet.
 - They are not expenses.
 - And, yes, you are allowed to take money out of a company!

Quickbooks / Accounting Software





Quickbooks / Accounting software



ACCOUNTING SOFTWARE OPTIONS

Affordable:

- Waves
- Freshbooks
- Accounting Suite
- Quickbooks Self-Employed
- Excel spreadsheet

Less Affordable:

- Quickbooks Essentials
- Quickbooks Plus
- Quickbooks Advanced
- Xero
- Sage
- Zoho Books

Quickbooks / Accounting software



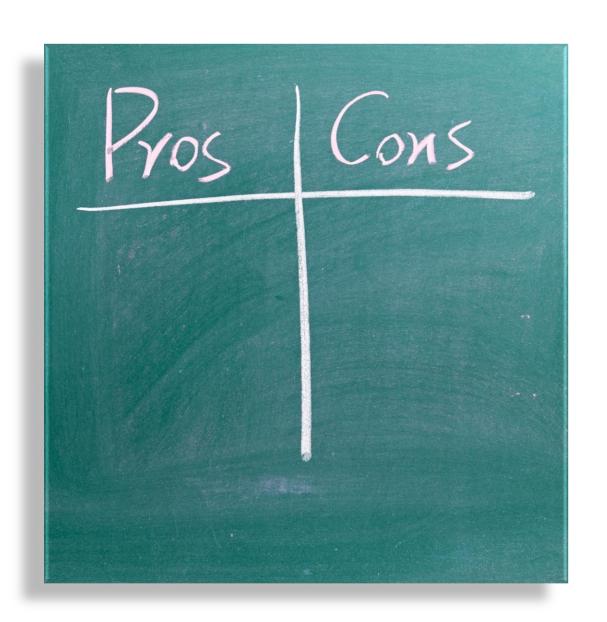
WHY USE ACCOUNTING SOFTWARE?

Pros:

- Great reports
- Creates financial statements used for your tax forms
- Can be taught to auto-categorize your transactions

Cons:

- Constant advertising
- Can be hard to learn
- Fees can change
- The software itself can change



Quickbooks / Accounting software



FINAL NOTE

- ✓ Accounting software is great if it's affordable, it keeps you up to date and you find it easy to use.
- ✓ It's not worth your time, or money, if you do not keep it up to date and you can not learn it
- ✓ Using Excel or some other type of spreadsheet is perfectly acceptable
- ✓ all that matters is that you track your performance

COMPLIANCE





COMPLIANCE

SCHEDULE





Department of the Treasury		► Go to www.irs.gov	(Sole Proprietorship) Go to www.irs.gov/ScheduleC for instructions and the latest information. Form 1040, 1040-SR, 1040-NR, or 1041; partnerships generally must file Form 1065.					
	of proprietor	on to Form 1040, 1040-2	on, 1040-1411, or 1041, partiterships generally must life	_	Sequence No. 09 rity number (SSN)			
Junio C	. p. sprietor			Oction Section	,			
A	Principal business or pro	ofession, including produc	ct or service (see instructions)	B Enter cod	e from instructions			
	g production of the state of th							
С	Business name. If no se	parate business name, le	ave blank.	D Employer	ID number (EIN) (see instr.)			
E	Business address (including suite or room no.) ▶							
	City, town or post office, state, and ZIP code							
F			Accrual (3) ☐ Other (specify) ►					
G		naterially participate" in the operation of this business during 2020? If "No," see instructions for limit on losses . 🔲 Yes 🔲 N						
н			20, check here					
			require you to file Form(s) 1099? See instructions					
		ou file required Form(s) 1	1099?		Yes No			
Par	Income							
1	그리고 시는 내 시대를 가지면 되게 했다. 네트리의 때 때 얼굴했다고 있		1 and check the box if this income was reported to you o	12-20				
0.25			that form was checked					
2				. 2				
3	Subtract line 2 from line			. 3				
4				. 4				
5			e or fuel tax credit or refund (see instructions)	. 6				
7	그렇게 되었다. 아이들의 사용을 가지 않는데 얼마를 살아왔다.							
			ss use of your home only on line 30.	1				
8	Advertising		18 Office expense (see instructions)	18				
9	Car and truck expenses	(0)	19 Pension and profit-sharing plans					
9	instructions)	***	20 Rent or lease (see instructions):	. 10				
10		. 10	a Vehicles, machinery, and equipmen	t 20a				
11	Contract labor (see instruct		b Other business property	72.50				
12	Depletion		21 Repairs and maintenance					
13	Depreciation and section		22 Supplies (not included in Part III)					
		(not	23 Taxes and licenses					
	included in Part III) instructions)		24 Travel and meals:	100				
14	Employee benefit progr		a Travel	. 24a				
	(other than on line 19).		b Deductible meals (see					
15	Insurance (other than hea	2003	instructions)	. 24b				
16	Interest (see instructions	s):	25 Utilities	. 25				
а	Mortgage (paid to banks,	etc.) 16a	26 Wages (less employment credits)	. 26				
b	Other	. 16b	27a Other expenses (from line 48) .	. 27a				
17	Legal and professional serv	ices 17	b Reserved for future use	. 27b				
28	Total expenses before	expenses for business us	se of home. Add lines 8 through 27a	28				
29	Tentative profit or (loss).	Subtract line 28 from line	e7	. 29				
30	unless using the simplification Simplified method filer	ed method. See instructions only: Enter the total sq	uare footage of (a) your home:	9				
	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			. 30				
31		oss). Subtract line 30 from line 29.		. 55				
٠.		nter on both Schedule 1 (Form 1040), line 3, and on Schedule SE, line 2. (If you						
			ites and trusts, enter on Form 1041, line 3.	31				
	If a loss, you must go							
32	기계 위한 대통령이 하는 특별 이렇게 하는 것을 했다.		your investment in this activity. See instructions.					
0.0000000000000000000000000000000000000	If you checked 32a, 6 SE, line 2. (If you checke Form 1041, line 3.	enter the loss on both Seed the box on line 1, see the	chedule 1 (Form 1040), line 3, and on Schedule the line 31 instructions). Estates and trusts, enter on 98. Your loss may be limited.	32b 🔲 🕏	All investment is at risk. Some investment is not at risk.			

Compliance



SELF EMPLOYMENT TAXES

Self-employed income is taxed differently than income received as an employee

As a self-employed person, you pay for your own Social Security and Medicare taxes

Cost of Self Employment Tax = 15.3%



Compliance



ESTIMATED TAX PAYMENTS

What ARE these?

- When do they need to be paid?
 - ☐ April 15
 - **□** June 15
 - ☐ September 15
 - ☐ January 15 of the following year

How do I submit them?

- For Federal Estimates pay via irs.gov or mail in your voucher with payment
- For the State of Vermont pay via myvtax or mail in your voucher with payment

How much do you owe?

• Your final tax liability amount is determined after accounting for your all other household income, deductions and credits.







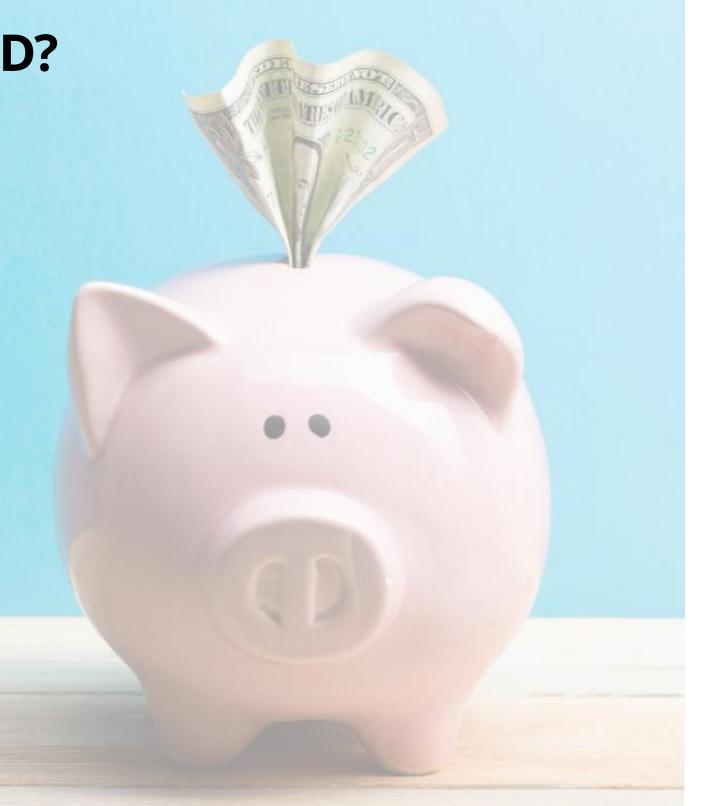


HOW DOES A CREATIVE BUSINESS GET PAID?

- 1. Sell your product/provide your services
- 2. Collect money from sales
- 3. Spend money to create your product
- 4. Summarize your transactions into a Profit and Loss
- 5. Report earnings via Schedule C
- 6. Figure self employment taxes
- 7. Calculate personal income tax liability (liability means amount owed)
- 8. Make estimated tax payments

What's left?

Money that is yours.....





HOW MUCH MONEY CAN YOU TAKE OUT?

The amount of money remaining after paying your tax liability is the total amount you can take out of the company

Questions to ask yourself:

- ➤ Where do you stand now?
- > Did you take out more money then you owe?
- > Can you take out money without worrying about meeting your tax liability?
- > Are you always playing catchup when the tax deadline arrives?



Pricing:

- When you priced your product, did you account for the cost of self employment taxes?
- When you priced your product, did you take into account the amount of hours spent creating your product and did you determine how much you would like to be paid?
- Pricing is tricky...you need to cover your costs, make enough money to be profitable and not be so highly priced that your product is unaffordable.



They tell me I made money, why don't I have any?

Here's the answer why:

- ✓ Financial statements do not take into account a business' tax liability.
- ✓ There are allowances, rules, laws that make it so that not all items can be fully deducted (expensed).
 - ✓ Meaning, your profit and loss can look substantially different from your Schedule C Net Profit.
- ✓ In addition, your final tax liability amount is determined after accounting for your all other household income, deductions and credits.
- ✓ These are the HIDDEN expenses that Small Business owners don't always account for
- ✓ There's no easy way around this:
 - ✓ Do the work
 - ✓ Get to know your taxes
 - ✓ Don't hide from it...work with it
- ✓ If necessary, hire a bookkeeper, accountant or tax preparer to help you





Federal and state covid-19 loans and grants

Are they reflected on your books?
How do you do it?

Questions and Answers





Thank you







- VtSBDC Know your Numbers
- Irs.gov

Contact Information



General Business Questions and Updates

SBDC@VtSBDC.org



VtSBDC.org



Keep updated on social (Facebook, Twitter, LinkedIn) @VtSBDC







