ERICKSON

& CO., CPA

TEN FREE BUSINESS TIPS

TABLE OF CONTENTS

Corporate S Outline

Corporation S Outline

S corporations are corporations that elect to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes. Shareholders of S corporations report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates. This allows S corporations to avoid **double taxation** on the corporate income. S corporations are responsible for tax on certain built-in gains and passive income at the entity level.

To qualify for S corporation status, the corporation must meet the following requirements:

- Be a domestic corporation
- Have only allowable shareholders
  - May be individuals, certain trusts, and estates and
  - May not be partnerships, corporations or non-resident alien shareholders
- Have no more than 100 shareholders
- Have only one class of stock
- Not be an ineligible corporation (i.e. certain financial institutions, insurance companies, and domestic international sales corporations).

LLC Electing S Corporation Status

An LLC electing S corporation status occurs when your CPA, accountant or tax preparer help you to elect to be treated as an S corporation by the IRS to take advantage of beneficial tax treatment. In many instances, S corporation status is desirable because in an LLC, a partner must pay a substantial self-employment tax on his or her share of the company's income, however, S corporation owners do not have to pay this tax.

Differences Between LLCs and S Corporations

Both LLCs and S corporations have the following characteristics.

- They operate under a “pass-through” tax treatment.
- They don't pay taxes based on the business' profits but rather are passed along to the owners and reported individually.
- They help keep the owners and the businesses separate and provide liability protection.

Differences include the following:

- An LLC is typically easier to run in terms of administrative work because of fewer state filings and forms, lower start-up costs, and fewer formal meetings and less documentation.
- An LLC is more flexible in how owners divide profits and losses among owners.
- When an LLC has more than one owner, it is treated as a partnership by the IRS by default. Single-owner LLCs default to sole proprietorships for tax purposes.
- The S corporation is more flexible in how profits are divided and paid to the owners.

To combine your LLC with an S corporation, you have to first formalize your business as an LLC, and then elect to have it treated as an S corporation by the Internal Revenue Services (IRS).

Legally, your company will be an LLC, which means that you will receive the advantages of an LLC. This includes fewer filings with the state, less paperwork, and generally lower costs.

From the perspective of the IRS, your business will be an S corporation.. You will get the pass-through income of a sole proprietorship or partnership, but with the added flexibility of dividing some of the company's income.

LLC Electing S Corporation

When an LLC elects S corporation status, all of its liabilities and assets are exchanged for stock in the new corporation, which is then liquidated and distributed to its owners. This transfer is not taxable as long as the LLC's debts do not exceed its assets. S corporation status can then be elected if all members qualify to do so.

This election requires the completion of IRS Form 8832. The effective date for the election can be within 75 days of the filing date. A new LLC must file this election by the middle of the third month after the entity is created. This requires IRS Form 2553. This form also allows you to choose between a calendar tax year or an alternate fiscal year.

You can also elect S corporation treatment when you file your business tax return by including both Form 2533 and Form 1120S along with an indication of the consent of all LLC members for this election.

S Corporation Status Considerations for Partnerships

If a partnership decides to elect S corporation status, the process is the same as an LLC as far as exchanging assets and liabilities for stock in the new corporation. This conversation can take place at the beginning of the year if your partnership elects that date.

Taxation of S Corporations

The following are guidelines about the taxation of S corporations:

- An S corporation is subject to pass-through tax status. This means that owners report the business's income and losses on their individual tax returns, thus avoiding double corporate taxation.
- S corporations report their income and deductions.
- S corporations file information return forms reporting the corporations' tax credits, profits, losses, income, and deductions for the tax year in question.
- Shareholders are given a Schedule K-1 that indicates the share of the above items that must be reported on individual tax returns. Each shareholder also pays a percentage of employee Medicare and Social Security tax.

Guide to Business Entities

Guide to Business Entities

CPA accountant will take your business beyond the numbers

Entity	Advantage	Disadvantages
Proprietorship **Schedule C**	Easy to form. All taxation to owner.	All income subject to SE tax. Unlimited liability of owner.
Partnership **Tax Form - 1065**	Pass-through taxation. Only limited partners have no liability and no SE tax.	Restrictions on choice of tax year. General partners have personal liability for debt and pay SE tax on all income.
C Corporation **Form 1120**	Can raise capital with stocks. Owners have limited liability. Ease of transferability of stocks. Corporation has Perpetual life.	Earnings subject to double taxation. Potential double taxation on dissolution. More administrative work to form this corporation.
S Corporation **Form 1120S**	Pass-through tax- avoid double tax. Owners have limited liability. Distributions are exempt from payroll taxes.	Limited number of shareholders to 100. Restrictions on choice of tax year. One class of stocks and no corporate, partnership or nonresident alien shareholders.
Limited Liability Company **Tax Forms: Schedule C or F** **1065, 1120 or 1120S**	All members have limited liability. No limit on number or type of members. May elect to be taxed under several forms. Members may participate in management.	Limited transferability of interests. LLC law vary from state to state. Some restrictions in tax year choice. Material participation may be exposed to SE tax.

Hypothetical Assumption Examples	**Tax Due for Proprietorship/LP/LLC**	**Tax Due for S Corporation**
Net Income	100,000.00	100,000.00
Allocated to wages	0	40,000.00
Federal Tax of 22%	22,000.00	22,000.00
Medicare & SS Tax 15.6%	15,600.00	6,240.00
Total Taxes	37,600.00	28,240.00
Tax Saving		**$ 9,360.00**

Ela Erickson, CPA
elae@ericksoncpa.net
702.992.0803
www.ericksoncpa.net

Setting Up An Efficient Record Keeping System

Setting up an efficient record keeping system

CPA, accountant have developed many methods to keep your record and most of them are reliable, some are time efficient if we use our current technology, and I would like to share with you a few systems that most of my clients have found useful for their businesses.

1. **Quick-Books** – is one of the most popular software for the small businesses in today's market. From my experience, this program is like a platform that can be customized for any business.

   Quick-Books offers many specific software programs that businesses use to manage sales and expenses and keep track of daily transactions. You can use it to invoice customers, pay bills, collect payments, generate reports for planning, tax filing, and more. The QuickBooks product line includes several solutions that work great for anyone from a solopreneur to a mid-sized business.
2. **Open a separate bank account -**after you've legally registered your business, you'll need somewhere to stash your business income. Having a separate bank account keeps records distinct and will make life easier come tax time. Note that LLCs, partnerships, and corporations are legally required to have a separate bank account for business. Sole proprietors don't legally need a separate account, but it's definitely recommended.

   Start by opening up a business checking account, and then saving account that will help you organize funds and plan for taxes.

3. **Open a business credit card account -** We highly recommend to open a business credit card to start building business credit. Corporations and LLCs are required to use a separate credit card to avoid commingling personal and business assets.

   Before you talk to a bank about opening the business accounts, do your homework. Shop around for business accounts and compare fee structures. Most business checking accounts have fees that are higher than personal banking, so pay close attention to what will cost you.

   In order to open a business bank account, you're required to have a business name, and usually be registered with your state or province. Check with the individual bank for what documents to bring to your appointment.

   ASK YOUR CPA, ACCOUNTAT OR TAX PREPARE FOR DIRCTION.

How Taxpayer Can Reduce The Cost For Tax Return Preparation

How taxpayer can reduce the cost for tax return preparation

As per most tax preparers, accountants or CPAs we suggest all taxpayers should get ready to file their taxes, one of the first things they'll do is compile their records. To avoid refund delays, taxpayers should gather all year-end income and expenses documents before filing a tax return.

It's important for CPA, accountants or tax preparers to have all the needed documents handed before they start to prepare your return. By doing this it helps to file a complete and accurate tax return and tax prepare time spend to prepare your return will be reduced. Below are some important taxpayers' documents that need to be provided before preparation of their taxes:

- Social Security numbers of the family members listed on the tax return and date of birth. Most tax organizers do have special page designated for taxpayers and it is very important to answer all questions in order for taxpayers to benefit from all credits and special deductions.
- Bank account and routing numbers if you would like to pay directly to the IRS or get refund in a reasonable time.
- Direct deposit - is the fastest way for taxpayers to get their money and avoids a check getting lost, stolen or returned to the IRS.
- W-2 forms - form your employers.
- 1099 forms - from banks and contracted services.
- All documents that show income, including income from virtual currency transactions.
- 1095-A forms, Health Insurance Marketplace Statement. Tax preparers, accountants or CPAs will need this form to reconcile advance payments or claim the premium tax credit.
- The taxpayer's adjusted gross income from their last year's tax return. Tax preparers, accountants or CPAs using a software tax for the first time will need taxpayer's prior year AGI to complete your tax return.
- Most tax forms usually start arriving by mail or are available online from employers and financial institutions in January. Taxpayers should review them carefully. If any information shown on the forms is inaccurate, the taxpayer should contact the payers ASAP and ask for amended forms.

Tracking Business Expenses Recommended for Small Business Owners

Tracking business expenses recommended for small business owners

The foundation of solid business record keeping is learning to track your expenses effectively. It's a crucial step that allows you to monitor the growth of your business, build financial statements, keep track of deductible expenses, prepare tax returns, and support what you report on your tax return.

Right from the beginning, you should establish a system for organizing receipts and other important records. This process can be simple and old school use a service like **Shoebox.**

For some American business owners, the IRS doesn't require to keep receipts for expenses under $75.00, but it's a good habit nonetheless.

There are five types of receipts that you should pay extra attention to:

- **Meals and entertainment:** Conducting a business meeting in a cafe or restaurant is a great option, just be sure to document it well. On the back of the receipt, record who attended and the purpose of the meal or outing.
- **Out of town business travel:** The IRS and CPA accountant are wary of people claiming personal activities as business expenses. Thankfully, your receipts also provide a paper trail of your business activities while away.
- **Vehicle related expenses:** Record where, when, and why you used the vehicle for business, and then apply the percentage of use to vehicle related expenses.
- **Receipts for gifts:** For gifts like tickets to a concert, it matters whether the gift giver goes to the event with the recipient. If they do, then the expense would be categorized as entertainment rather than a gift. Note these details on the receipt.
- **Home office receipts:** Similar to the vehicle expenses, you need to calculate what percentage of your home is used for business and then apply that percentage to home related expenses.

Starting your business at home is a great way to keep overhead low, plus you'll qualify for some unique tax breaks. You're able to deduct the portion of your home that's used for business, as well as your internet connection, cell phone, and transportation to and from work sites and for business errands.

Any expense that's used partly for personal life and partly for business must reflect the mixed use. For instance, if you have one cell phone, you can deduct the percentage you use the device for business. Business gas mileage costs are 100% deductible, just be sure to hold on to all records and keep a log of your business miles (where you're going and the purpose of the trip).

Most small business owner can use cash-based accounting if revenues are under USD $5M, otherwise they must use the accrual method.

All Taxpayers Have the Right to Quality Service from Professional Tax Preparers, CPAs, or Accountants.

All taxpayers have the right to a quality service from professional tax preparer, CPA or accountants.

The Taxpayers have rights if they choose to work with the professional tax preparer, accountants or CPA on any tax matter.

The 10 fundamental rights of every taxpayer are included on that list is the Right to Quality Service:

Taxpayers have the right to:

- Receive prompt, courteous, and professional assistance from tax preparer, accountants or a CPA.
- Be spoken to in a way they can easily understand.
- Receive clear and easily understandable communications with tax professionals, a CPA or accountants.
- Speak to a supervisor about inadequate service.

Below are some points that taxpayers can expect on a tax matter.

- Tax preparers, CPA or tax accountant will listen objectively. They will consider all relevant information.
- Tax preparers, CPA or tax accountant will answer questions promptly, accurately and thoroughly.
- When collecting tax information, the tax preparers, CPA or tax accountant will treat taxpayer with courtesy.
- The tax preparers, CPA or tax accountant usually only contacts taxpayers in reasonable time.
- The Tax preparers, CPA or tax accountant won't contact the taxpayer's employer if the agency knows the employer doesn't allow such contact.
- The CPA or tax accountant will provide the taxpayer with information about how to get help from the Taxpayer Advocate Service in all statutory notices of deficiency.
  Taxpayers can also right to contact the IRS directly by calling the number on the top right corner of all notices and letters.

Child

Tax

Credit

Child tax credit

Taxpayers may be able to claim the child tax credit if they have a qualifying child under the age of 17. Part of this credit can be refundable, so it may give a taxpayer a refund even if they don't owe any tax.

The taxpayer's qualifying child must have a Social Security number issued by the Social Security Administration before the due date of their tax return, including extensions.

A dependent who doesn't have the required SSN may be eligible to be claimed for the credit for other dependents.

Here are some numbers to know before claiming the child tax credit or the credit for other dependents.

- **$2,000**: The maximum amount of the child tax credit per qualifying child.
- **$1,400**: The maximum amount of the child tax credit per qualifying child that can be refunded even if the taxpayer owes no tax.
- **$500**: The maximum amount of the credit for other dependents for each qualifying dependent who isn't eligible to be claimed for the child tax credit. This can include dependents over the age of 16 and dependents who don't have the required SSN.
- **$400,000**: The amount of adjusted gross income for taxpayers who are married taxpayers filing a joint return before the credit is reduced.
- **$200,000**: The amount of adjusted gross income for all other taxpayers before the credit is reduced.

Five Steps To Take Now To Protect Against Identity Theft

Five Steps to Take Now to Protect Against Identity Theft

All taxpayers should make sure they're doing everything they can to prevent a thief from stealing their identity.

Tax-related ID theft occurs when someone uses a taxpayer's stolen personal information to file a tax return claiming a fraudulent refund. The thieves use personal information like a stolen Social Security number. So, guard your personal information.

All government agencies are constantly working to combat these types of crimes, but they can't do it alone. Taxpayers play an important role when it comes to preventing identify theft.

Here are some tips to help CPA, accountants and taxpayers to protect themselves against identity theft.

CPA, accountants and taxpayers should:

- **Always use security software**. This software should have firewall and anti-virus protections.
- **Use strong, unique passwords**. They should also consider using a password manager.
- **Learn to recognize and avoid phishing emails, threatening calls and texts from thieves**. These scammers pose as legitimate organizations such as banks, credit card companies, and even the IRS. Do not provide any information over the phone.
- **Not click on links in unsolicited emails or messages from unknown senders**. Also, taxpayers shouldn't click on links or download attachments from emails that seem suspicious, even if they appear to be from senders they know.
- **Protect personal information and that of any dependents**. For example, people shouldn't routinely carry around their Social Security cards. They should also make sure tax records are secure.

Things Taxpayers Should Consider When Searching for a CPA (Accountant) or Tax Preparer

Things taxpayers should consider when searching for a CPA (accountant) or tax preparer

In the tax filing season many people are looking for a CPA accountant to help them file a tax return the taxpayers should choose their tax return accountant or CPA wisely.

This is because it's ultimately the taxpayer who is responsible for all the information on their income tax return. It's important for people to remember that this is true no matter who prepares the return. Here are some tips for folks to remember when selecting a preparer. Taxpayers should:

Check the preparer's qualifications. People can use the IRS Directory of Federal Tax Return Preparer with Credential and Select Qualifications. This tool helps taxpayers find a tax return preparer with specific qualifications. The directory is a searchable and sortable listing of preparers.

Check the preparer's history. Taxpayers can ask the local Better Business Bureau about the preparer. Check for disciplinary actions and the license status for credentialed preparers. There are some additional organizations to check for specific types of preparer:

- Enrolled Agents: Go to the verify Enrolled Agent Status page on IRS.gov.
- Certified Public Accountants: Check with the State Board of Accountancy.
- Attorneys: Check with the State Bar Association.

Ask about service fees. People should avoid preparers who base fees on a percentage of the refund or who boast bigger refunds than their competition.

Ask CPA (accountant) to e-file. The quickest way for taxpayers to get their refund is to electronically file their federal tax return and use direct deposit.

Make sure the preparer is available. Taxpayers may want to contact their preparer after this year's April 15 due date. People should avoid fly-by-night preparers.

Provide records and receipts. Good preparers will ask to see a taxpayer's records and receipts. They'll ask questions to figure things like the total income, tax deductions and credits.

Never sign a blank return. Taxpayers should not use a tax preparer who asks them to sign a blank tax form.

Review before signing. Before signing a tax return, the taxpayer should review it. They should ask questions if something is not clear. Taxpayers should feel comfortable with the accuracy of their return before they sign it.

Review details about any refund. Taxpayers should make sure that their refund goes directly to them – not to the preparer's bank account. The taxpayer should review the routing and bank account number on the completed return.

Ensure the preparer signs and includes their PTIN. All paid tax preparers must have a Preparer Tax Identification Number. By law, paid preparers must sign returns and

Deadlines In Calendar Year for Tax Returns

Deadlines in Calendar Year for Tax Returns

	Chronological order Tax Forms, Tax Payments or Retirement accounts of deadlines
Jan. 15th	Pay 4th quarter taxes for the last calendar year income.
Jan 31st	Mail out W-2 to emplyees and furnish 1099 forms for non-employee compensation.
Feb 15th	Financial institutions mail out Form 1099-B, 1099-S and 1099-MISC.
Feb 28th	Businesses mail out Forms 1099 and 1096 to the IRS.
Mar 15th	Corporate tax returns (Forms 1120, 1120-A, and 1120-S) , or to request automatic six-month extension for the calendar year. Partnership tax returns (Form 1065) or to request an automatic five-month extension.
Apr 15th	Contribution to traditional IRA, Roth IRA, Health Savings Account, SEP-IRA, or solo 401(k) for the 2019 tax year[7]
Apr 15th	Pay first quarter estimated tax payments for the this tax year.
Apr 15th	Deadline to file a gift tax return
Apr 15th	File estate income tax or trust income tax returns (Form 1041) or to request an automatic five-month extension of time to file (Form 7004)3
June 1st	Form 5498 to report balances in an individual retirement account (IRA)8
June 15th	Second quarter estimated tax payments for the current tax year.
June 15th	for an automatic 4-month extension3
Sept. 15th	Third quarter estimated tax payments for the current tax year.
Sept. 15th	File corporate tax returns (1120, 1120-S) for the current year if an extension was filed.
Oct. 15th	Self-employed persons or small employers to establish a SIMPLE-IRA9
Oct. 15th	File individual tax returns for the current tax year.
Oct. 15th	Fund a SEP-IRA or solo 401(k) for the last tax year if you filed an automatic extension.