MODERN CPA

Transcript for Podcast Episode: 004

Gearing Up for Tax Season

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Michelle: We are Modern CPA. Our purpose is to provide valuable information to small business owners on our podcast Profit Points. We discuss business, how-to's, give tax tips, and dig into real life experiences in the crazy world of running your own business. If you find this podcast helpful, then like, subscribe and follow us on social media.

Michelle: Hi, everyone, we're Modern CPA and this is our podcast Profit Points. We're here to talk to small business owners and professionals about what they see in the business world. Our goal is to help people get savvy about how to start and run their own businesses. Thank you for joining us today, and we are going to talk about getting ready for tax time. So today, Shawn Cahill and myself will go through some of the things that are needed for getting ready for tax time. Shawn, would you like to start us off with some tips and things that we need to get going?

Shawn: Yes. Thanks. Hi, everyone. So really, the first thing you need to do as a business to get yourself ready for tax time is finish up your accounting for the year, you know, recording all the activity for the year, getting your accounts reconciled. So bank accounts, credit cards, loans, all of those things, making sure all of that is ready to go. In addition to that, you want to make sure that you you're reviewing your accounts receivable accounts payable. So if there's anything outstanding that is old that you need to write off, get that all recorded. You want to get your bank loans, your line of credit statements and get all that stuff ready and recorded and recording the interest expense and all that stuff.

Michelle: Yeah. So a lot of times when banks, when you have a loan with a bank, they send you a year end statement right that provide you with the amount of interest that's been paid to date. Sometimes that interest is not been separately stated or identified. So it's a great opportunity to use that information from the bank to make sure that that piece of the transaction is being recorded properly.

Shawn: Yeah, you want to make sure that that that you are getting the expenses that you want for or you or that you've paid as deductions for the year or so, you know, properly showing the principal versus the interest will allow you to have the proper interest expense when we're doing the taxes, you know. Additionally, you know, if as there's a lot of businesses, business owners, you pay expenses out of your own pocket and they're not run through the the business account. So a lot of times they're not captured in the in the accounting. So you want to gather all that information and make sure that they're recorded in your accounting platform, whatever platform that is.

Michelle: Yeah. So sometimes examples of those things, or maybe you went out and you met with a prospect and you had a meal together and you used your personal card instead of your business card or you have an automatic payment that is going to a personal card, even though it's now being used for business. Those are good examples of some of those expenses, as well as business use at home, right? So the allocation of the amount of your personal residence that is used by the business is typically a deduction that has to be added in after the fact.

Shawn: Yeah, exactly. And another another example is business mileage on your auto that you use for business. A lot of times you're deducting mileage, not actual expenses. So, you know, gathering that information and making sure it's all up to date and capturing all of that.

Michelle: So right. And we've helped. Yeah, we've helped people identify how to track those miles. You know, we may have even done some snippets on that in the past. You know, Miles IQ tends to be one of the best apps that you can use for that if you're looking for something digitally. But an old school log book can capture mileage as well, so you can fill that in throughout the year whenever you're using your personal vehicle for business.

Shawn: Yeah, exactly. Exactly. Yeah. So, you know, that's that's, you know, really just finishing up your accounting. As I said, getting that all ready to go to hand it over to to your accountant, to us, as your accountant, you know, really gets the ball rolling in. The sooner you can do that in the beginning of the year, the better. Because, you know, tax time becomes a crunch time. And the more time we have to put that stuff together to put the tax returns together, it benefits you and it benefits us.

Michelle: Well along those same lines as crunch time. A lot of small businesses use independent contractors in their line of work, and although an independent contractor is not required to go on your payroll or issue them a W-2, they are, however, required to receive a 1099 from the business. If, in fact you paid them more than six hundred dollars in a given period for the year. That would be on cash basis, so it would be actual, you know, payments through the year, not just what they billed you. So that deadline is actually January 31st. That those have to be remitted. So that doesn't leave much time to get your accounting and order and prepare or get prepared your 1099s that you are required to submit to those subcontractors.

Shawn: Yeah, exactly. You know, part of, you know, preparing those 1099s, and I was getting the information from the subcontractors, so there's a W9 form that the contractors should be filling out for you. A good standard of practice is to gather them as soon as you hire that contractor. But actually, you know, we're in January, you get your accounting done going through that list to see what contractors you have and see W9s you're missing. Get those as fast as possible so that you can get those 1099s completed and sent out to those contractors by January 31st. Yeah, yeah.

Michelle: One of the other things that we like to tell our clients when they're talking about tax time is coming up with some kind of system to gather your tax documents. I always tell people, you know, it's OK, you don't need things in paper form, but definitely come up with some system in downloading and saving either in the cloud or on your computer. As long as it's backed up, you know the documents that you need and you get from institutions and others. Other 1099s that you may receive, you know, saving them in one spot for the year really can help keep yourself organized and be able to hand over those documents at tax preparation time.

Shawn: Yeah, absolutely. I mean, it's really difficult to kind of go back through and try to go through all different files to try to find all the information. So having one spots one place on, you know, whether it's a digital file somewhere that you keep it, or if it's, you know, if you're keeping paper files, you know, keeping it, keeping it all in one one location, you know, and segregated from, you know, your personal staff or, you know, any prior year stuff.

Michelle: Yeah. And also even segregated from like monthly statements. So, for instance, banking institutions that send if you have an investment account that send documents to you on a monthly basis may look very different than the year end tax document. A lot of times those institutions make changes to the character of some of that income. And so that year end tax document, which is considered to be a consolidated 1099 of some sort or, you know, tonight and I'd be or give these are all the types of documents that they issue. They need to be kept separate, then the monthly statements. The monthly statements are not as critical in tax preparation as as the year end document.

Shawn: Yeah, exactly, because that's the stuff that's getting reported to the IRS, and the IRS is taking that information and matching it up with your tax return. So you want to make sure that you're reporting what's getting reported to the IRS.

Michelle: Mm hmm. So, so some small business owners also in the gathering of tax documents, you know, they definitely need to worry about if they have employees getting those payroll returns finalized. If you use a third party payroll service, it will probably be done and taken care of. But making sure that you're aware that that's the time that those things start to happen and making sure that any W-2s for your employees are also issued on a timely basis, according to their due dates. So payroll reports are a really big is a really big deal when it comes to small businesses. So definitely take the time to make sure that those you're statements year and reconciliations that are potentially being done by a third party payroll company are in fact being completed.

Shawn: Yeah, exactly. You know, all of that goes goes into, you know, your final accounting as well because you're willing to take those year end reports as payroll reports, make sure all your payroll is recorded properly, payroll taxes and any processing fees by the third party payroll service and all of that stuff is captured in, you know, everything's tying out towards getting again what's getting reported to the IRS.

Michelle: And your proper deductions at that, you know, you're not missing something that you may have overlooked. Yep, exactly. Fixed Assets. Let's talk about that a little bit. So most of the time you people buy something and they take that off and you just kind of throw it into a folder. But let's talk about what needs to happen for their accounting and what maybe a trigger something that an accountant would look for in those documents.

Shawn: Yeah. So so when you're talking about fixed assets, you know, usually it's it's equipment, truck, furniture, fixtures, something that you're using in your business that has a useful life of more than one year. So some of those things I just mentioned when what's required is, is you have to record it in your accounting as a fixed asset. And then we applied depreciation to that. And there's different types of depreciation depending on the asset and what's allowed for that year. But what we're looking at is we're looking at the invoice, we want to see the invoice to see what the full cost is for that property because there is the ability potentially to record it as as a direct expense if it's under a certain dollar limit. If you're buying multiple pieces of item, so for instance, to say you buy 10 computers and they are a thousand dollars a peice, you spent $10000 and that invoice shows those 10 computers well, at $1000 a piece, we might be able to expense that instead of put it as a fixed asset and depreciate over time. So we would want to see what that invoice says. So we are able to piece together a where it should be recorded. Can we get some expenses faster? Mm-Hmm. As opposed to a fixed asset? And then, you know, when you're talking about things like trucks and vehicles, there's a lot of times there's a loan attached to that. So we'll need to see, you know, not just a bill of sale, but the other pages within that purchase document for the loan details.

Michelle: Perfect. Yeah, we definitely see that a lot. We'll see people record the deposit that they put down on the new vehicle, but they missed booking the full cost of that vehicle, as well as the loan that is attached to that. So those are things that we typically adjust for and just got vendors.

Shawn: All stars also trade ins as well. So then there's the disposition of the old vehicle and what you got out for value in the trade. And so, you know, there could be a few pieces to recording a new truck or car.

Michelle: Yeah, yeah, probably not so much in the other types of fixed asset equipment, you know that you don't usually trade in old equipment. Typically, they don't have much value, but you see it a lot in the vehicle relm, for sure. Yeah, yeah, I agree. So, yeah, let's talk about a little bit with retirement. Some small business owners don't have plans set up within their companies already, but it's definitely something that probably needs to be looked at and identified. There are opportunities that can take place for retirement savings that are after year end, some are before. We're not going to dove into all of those details because I'd like to have a separate podcast just on some of those retirement plans. But let's talk about what are some things that small business owners can do for retirement savings?

Shawn: Yeah, generally, I mean, you're probably, you know, it's after year end. So if you do have a company plan like a 401K plan, you've probably already funded the last payroll for the year. What what's required for the year, for what the employees put in, what you've put in and then the company match after year end. You know it again. If you're in a 401K plan, you may have a profit sharing component. You may want to think about a budgeting for what you want to put in for the profit sharing. Separate from that, if it's if it's not a 401K plan, then if you're looking at a, you know, a set plan, which self-employed retirement plan coming up with, you know, once we have the tax returns done, we can be able to calculate what those limits are, what you can put in. But hopefully you've already budgeted for it throughout the year. Maybe you've even...

Michelle: Maybe even contributed to it year after year. Yeah, there's a lot of clients and small business owners that do that.

Shawn: Yeah, yeah, exactly. So, you know, if it's a set plan, you know, you can extend your return and and put the money in later in the year if cashflow is an issue. If you're if you're not doing a set plan and you're just doing regular IRAS, then you have until April 15th to make that payment. You can extend that. So you know, those are really the three main things you're going to do after tax tax time or after the year end is profit sharing...

Michelle: During tax time, but after year end.

Shawn: Yeah. Yeah, yeah, yes. Profit sharing, a snap or an IRA or different types of IRAs that may be available depending on your income level...

Michelle: It really does. Yeah, exactly. Income level will have an impact on that, because there are a lot of people that choose to use the Roth IRA, but once their income level is too high, they may be phased out of that traditional IRAs are definitely an option. They have higher or higher thresholds, but if you have a spouse that's in a plan that can impact that deductibility as well. So all of these things have to be looked at separately, and it's good that the IRAs can be examined post year end, and it doesn't have to be done immediately because you don't really have all that information immediately.

Shawn: Exactly. Yeah. But you know, if you're planning throughout the year and in, you know, you're talking with your account, you're talking with us, you know, hopefully we have some good numbers and you kind of already have a budget and you sort of know where you're going to be at. You know, there's some fine tuning after year end always, you know, because things unexpectedly happen the last couple of months of the year or whatever. But, you know, hopefully you're kind of ready or you least have some sort of idea of what what you're going to do and and when all those things are going to be due.

Michelle: It's good information. I guess the last thing that maybe we want to talk about here today is, you know, receipts. We get a lot of questions about how do I keep what do I do with my receipts? How long do I need to keep these receipts? And I don't really want to go into all of the length of time everything needs to be kept. But let's just touch on some of the rules, especially when it relates to the IRS. What are they going to look for? Right?

Shawn: Yeah. Yeah, I mean, the first thing the first thing is, you know, is have receipts. I mean.

Michelle: Yes, keep them.

Shawn: Bank statements and credit card statements are just a record of payment that you bought something. It's not a record of what was purchased. So, you know, you have to have those those receipts. So especially if you're buying stuff on online, like through Amazon or any other online purchasing, you know, most of that stuff, you're not getting printed receipts from, you're just getting emails and or logging into your account. So downloading that information and getting it into that spot where you're keeping all of your records is is important. So, you know, the IRS requires receipts for all, any, any business expense that you're deducting and you need to have those, you know, the IRS has the ability to audit you from three years from the time that you file the tax return. So if you file your tax return in June of 2022, they have till June of 2025 to audit you. Now there is some additional length of time for anything related to PKI logs and employee retention credit, so you may have to hold those documents even longer. So a rule of thumb that I kind of stick with is seven years, seven years will get you passed most requirements that are there.

Michelle: Yeah, and this is really just a general thing. We'll have people probably comment. Well, my accountant told me it was less and and that's fine. We just like to be a little more conservative when it comes to that kind of stuff so that it's better to have it and not have it right or trying to find this stuff. If in fact you were ever audited in some capacity is really very challenging. Once you're two or three years down the line, you forget where you put things you forget where you things are. You forget why you bought that particular item. It just becomes much more difficult.

Shawn: And some of these some of these receipts, especially what I see with from restaurants, is that the that the ink fades over time and even even after a couple of months. And it's and it's gone, it's gone. You can't even decipher what now what it was. So I don't know what you do in those instances.

Michelle: Yes, exactly. I tell them, you scan it. Yes, scan every month, scan their receipts and then put save them digitally. If they want to just make a copy of them and keep things in hard copy, that's fine as well. But I tell people to photocopy them or scan.

Shawn: Yeah, yeah, right away. Exactly. Yeah, so that's that's really good advice, you know, making sure that you have all that stuff and you know, whether whether you're keeping it three, five, seven years, just, you know, let's start with getting them, gathering them and having them available.

Michelle: So awesome. Well, I think this has been a great podcast. It should get people going on some of the things that they need to do for tax season. Do you have any other suggestions, Shawn, at this time or we'll probably start another upcoming podcast will be about the 2022 year and some things to think about for that. In the meantime, do you have anything else?

Shawn: Just, you know, the earlier, the better you can get your stuff completed and handed to your accountants. That gives us everybody, you know, plenty of time to look at everything. Make sure everything's done right. So we're not, you know, rushing at the end.

Michelle: Yeah, exactly. I think that's really important for everyone. You don't need to be worrying about getting running up against a deadline, for sure. Exactly. So thank you, everyone for joining us today again on another episode of Profit Points, and we look forward to seeing you next time. Take care. Thanks, everyone. If you find this podcast helpful and like, subscribe and follow us on social media.