

lili Tax optimizer

DEMYSTIFYING TAXES FOR SOLE PROPRIETORS & SINGLE MEMBER LLCs

Who am I?



Wendi Caplan-Carroll
Small Business Coach
Passion for SMB Success
Co-Founder Square Biz

We work with brands to help them educate and connect with SMBs.

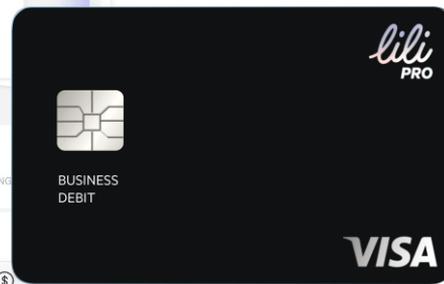
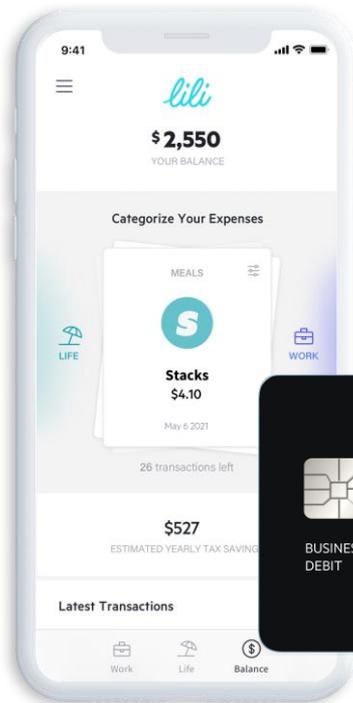


Banking Designed for YOUR Business.

The one-stop shop for all your small business financial needs
— banking, accounting and taxes.

- ✓ **MOBILE BANKING**
- ✓ **TAX OPTIMIZER TOOLS**
- ✓ **DIY ACCOUNTING**

Solo Business Owner (Sole Proprietor, with or without a DBA) and Single Member LLC eligible



***Over 70% of
solo business
owners
overpaid
their taxes.***

The logo for 'lili' is written in a bright cyan, cursive script font. The letters are fluid and connected, with a modern, rounded feel. The 'l' and 'i' are particularly prominent, with the 'i' having a distinct dot.

Banking designed for your business

Today, we will cover:

Business Deductions ↩

↩ Taxes

Q&A

Taxes & Business Deductions



Disclaimer: this presentation should not be considered financial or tax advice, as it's been simplified for the sake of the example. You should always consult with your accountant or call the IRS for any tax-related questions

Taxes 101

Rule of thumb: if you make more than \$12,500, you have to pay income taxes. If you make more than \$400 a year from self-employed work, you have to pay self-employment taxes.

Small Business Owners are responsible for calculating their taxes and paying them

Even if you use a professional accountant, it's important to understand how taxes are calculated so you can better prepare and optimize.

How to optimize your taxes

aka only pay what you really owe

aka keep money into your pocket

You are “tax responsible” for:

As a business (Form Schedule C)



Self-Employment
Tax

As an individual (Form 1040)



Federal Income
Tax



(Potentially) State
Income Tax

What do business deductions do?



They reduce your **NET EARNINGS** and therefore your
TAXABLE INCOME...



...which reduces the amount of taxes you're going to pay.

Business Deductions will save you \$\$

GROSS PROFIT - BUSINESS DEDUCTIONS = NET EARNINGS

NET EARNINGS are the starting point of ALL your tax calculations



What counts as a Business Expense?

For the IRS a business expense must be “necessary and ordinary” To be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your trade or business. An expense does not have to be indispensable to be considered necessary. – IRS.gov

IRS CATEGORIES

SCHEDULE C
Form 1040

Profit or Loss From Business
Sole Proprietorship

OMB No. 1545-0045

Department of the Treasury
Internal Revenue Service

Go to www.irs.gov/schedulec for instructions and the latest information.
Attach to Form 1040, 1040-SR, 1040-SS, or 1040-preparedness must generate the Form 1040.

Name of proprietor: _____

Principal business or profession, including product or service (see instructions): _____

Business name, if no separate business name, leave blank: _____

Business address (including suite or room no.): _____
City, town, or post office, state, and ZIP code: _____

Did you "materially participate" in the operation of this business during 2021? Yes No

Did you start or acquired this business during 2021? check here: Yes No

Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions: Yes No

Did you or will you file the required Form(s) 1099? Yes No

Part I Income.

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form 990 and the "disability employee" box on that form was checked: 1

2 Returns and allowances: 2

3 Sublet less than line 1: 3

4 Cost of goods sold (from line 42): 4

5 Gross profit. Subtract line 4 from line 3: 5

6 Other income, including interest and other taxable or fuel tax credit or refund (see instructions): 6

7 Gross income. Add lines 5 and 6: 7

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8 Advertising: 8

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

14 Employee benefit programs (other than on line 19): 14

15 Insurance (other than health): 15

16 Interest (see instructions): 16

17 Legal and professional services: 17

18 Office expense (see instructions): 18

19 Pension and profit-sharing plans: 19

20 Rent or lease (see instructions): 20

21 Repairs and maintenance: 21

22 Supplies (not included in Part III): 22

23 Taxes and licenses: 23

24 Travel and meals: 24

25 Utilities: 25

26 Wages (less employment credits): 26

27 Other expenses (from line 48): 27

28 Reserved for future use: 28

29 Other: 29

30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions and file 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 Net profit or (loss). Subtract line 30 from line 7: 31

32 If you have a loss, check the box that describes your investment in this activity. See instructions. 32

33 All investment is at risk. 33

34 Some investment is not at risk. 34

35 If you checked 32b, enter the loss on both Schedule E (Form 1040), line 5, and on Schedule SE, line 2. If you checked the box on line 1, see instructions. Estates and trusts, enter on Form 1041, line 5. 35

36 If you checked 32c, you must attach Form 8196. Your loss may be limited. 36

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P Schedule C (Form 1040) 2021

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21	Repairs and maintenance	21	
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest (see instructions):			24	Travel and meals:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	
b	Other	16b		b	Deductible meals (see instructions)	24b	
17	Legal and professional services	17		25	Utilities	25	
				26	Wages (less employment credits)	26	
				27a	Other expenses (from line 48)	27a	
				b	Reserved for future use	27b	

What counts as a Business Expense?

Here are some of the most common ones for freelancers

- ❖ Hardware and softwares
- ❖ Office supplies
- ❖ Subscription and dues
- ❖ Marketing expenses
- ❖ Utilities
- ❖ Client meetings (food and transportation)
- ❖ Training
- ❖ Business trip (>100 miles)
- ❖ Car Mileage
- ❖ Home Office Space

Home Office Deduction

If a part of your home is a place of work and used exclusively for that purpose (the dining room table doesn't count) you can deduct a percentage of that space on your rent or mortgage.

The IRS let's you deduct **\$5 per square foot** capped at 300 square feet.

So basically a **maximum total of \$1,500**



Car Mileage Deduction

What matters here is **the mileage, not the frequency.**

If you drive 10,000 miles over the course of the year and 4,000 miles were for business (even if it's one time cross country trip) then 40% of your car usage is considered business.

Standard Rate Method or Actual Expense Method

Standard rate

56c per mile in 2021

Actual Expense Method

X% of all your vehicle expenses



Business Deductions will save you \$\$

GROSS PROFIT - BUSINESS DEDUCTIONS = NET EARNINGS

NET EARNINGS are the starting point of ALL your tax calculations

SCENARIO A

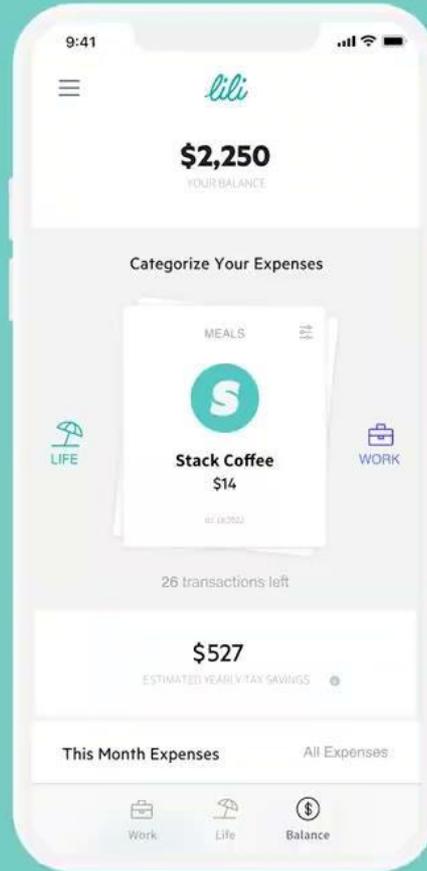
Gross Profit = **\$75,000**
Business Deductions = **\$10,000**
Net Earnings = **\$65,000**
SE Taxes = **\$9,184**

SCENARIO B

Gross Profit = **\$75,000**
Business Deductions = **\$15,000**
Net Earnings = **\$60,000**
SE Taxes = **\$8,477**

\$707

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Let's understand our obligations

As a business



Self-Employment
Tax

As an individual



Federal Income
Tax



State Income
Tax

Self Employment Taxes



15.3% on 92.35% of your **Net Earnings**

This
covers:

12.4% Contribution to Social Security (on up to the first \$142,800 in 2021)

2.9% Contribution to Medicare

As a full-time employee, you pay 50% and your employer pays 50%
As a freelancer or solo business owner you're responsible for 100% of it.

Let's recap the Tax Liability for the **business side** of you

GROSS PROFIT = \$75,000

BUSINESS DEDUCTIONS = \$15,000

NET EARNINGS = \$60,000

SELF EMPLOYMENT TAX = \$8,477

MOVING ON TO THE INCOME TAX

Taxes 101: The Income Tax



“The most complicated thing in the world to understand is the income tax”
Albert Einstein

Federal Income Tax



You don't pay income tax on every cent you make as a Small Business Owner.

- ★ You first need to calculate your Taxable Income.
- ★ And no, it is NOT the same thing as your Net Earnings.

You're going to deduct a few more things first

**ABOVE-THE-LINE DEDUCTIONS
BELOW-THE-LINE DEDUCTIONS**

ALRIGHT, FROM THE TOP!



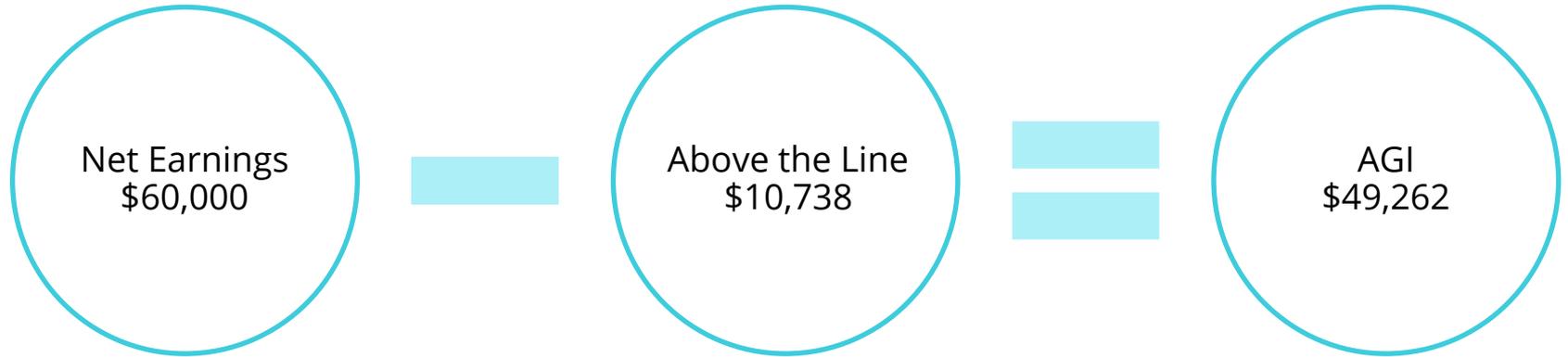
→ ABOVE THE LINE DEDUCTIONS



Subtract from your Net Earnings a series of deductions called “Above The Line”

Contributions to retirement accounts (IRA, SOLO 401K...)	\$2,000
Student loan interest	\$1,500
Health insurance premiums for individual plans	\$3,000
50% of your self-employment tax (8,477)	\$4,238

ADJUSTED GROSS INCOME



BELOW THE LINE DEDUCTIONS



Subtract from your AGI a series of deductions called “Below The Line” or take the Standard Deduction

OPTION # 1 - ITEMIZE

Charity donations

State and local taxes up to \$10K

Mortgage interests

Unreimbursed medical expenses

OPTION #2 - KEEP IT STANDARD

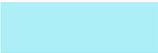
Filing Status	2020 Standard Deduction	2021 Standard Deduction
Single	\$12,400	\$12,550
Head of Household	\$18,650	\$18,800
Married Filing Separately	\$12,400	\$12,550
Married Filing Jointly	\$24,800	\$25,100

Data Source: Internal Revenue Service

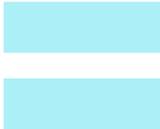


TAXABLE INCOME

AGI
\$49,262



Below the Line
\$12,550



Taxable Income
\$36,712



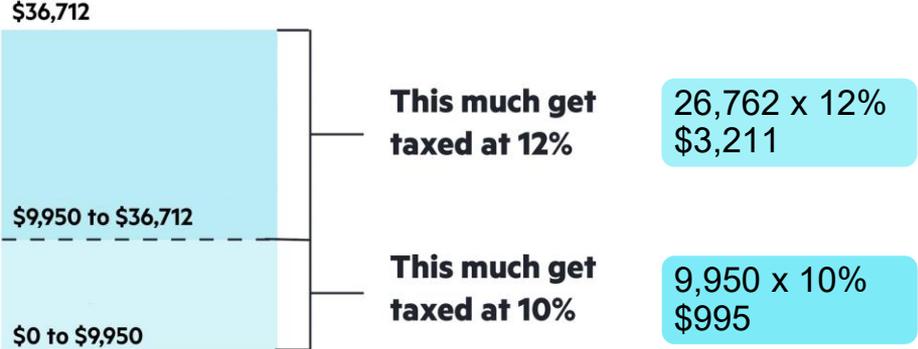
HERE WE ARE! THE FEDERAL INCOME TAX

Taxable Income = \$36,712

The Brackets

2021 Tax Rate	Single and Married filing separately	Married, filing jointly	Head of household
10%	\$0 to \$9,950	\$0 to \$19,900	\$0 to \$14,200
12%	\$9,951 to \$40,525	\$19,901 to \$81,050	\$14,201 to \$54,200
22%	\$40,526 to \$86,375	\$81,051 to \$172,750	\$54,201 to \$86,350
24%	\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,351 to \$164,900
32%	\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,901 to \$209,400
35%	\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,401 to \$523,600
37%	Over \$523,601	Over \$628,301	Over \$523,601

The Progressive System

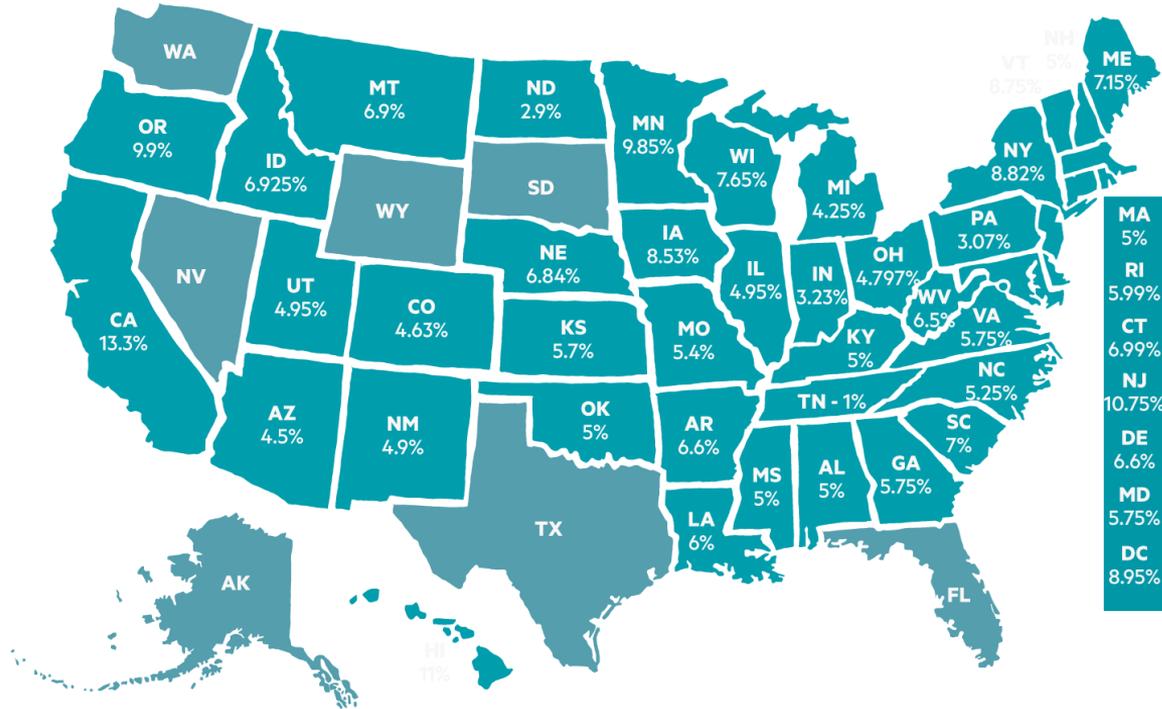


Total Income Tax: \$4,206

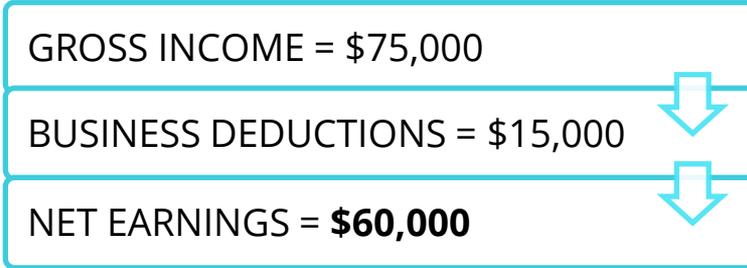
State Taxes

Some states also use progressive system

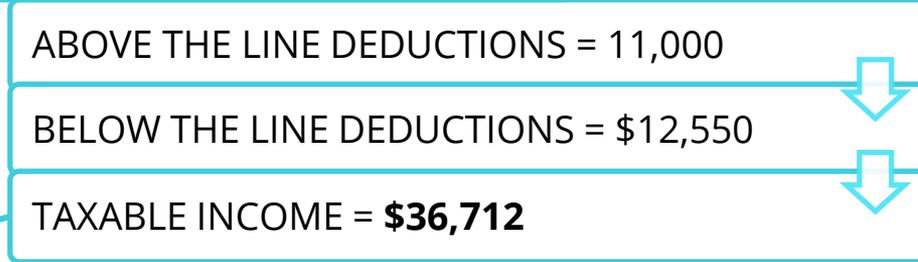
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A QUICK RECAP



SELF EMPLOYMENT TAX
\$8,477



FEDERAL INCOME TAX
\$4,206

TOTAL TAX BILL
\$14,335
19% of the income



STATE INCOME TAX
MI: \$1,652

SCENARIO AGross Profit = **\$75,000**Business Deductions = **\$10,000**Net Earnings = **\$65,000**SE Taxes = **\$9,184**Fed Income Tax = **\$4,839**State Tax = **\$1,757**TOTAL TAX DUE: **\$15,782***(21% of Gross Profit)***SCENARIO B**Gross Profit = **\$75,000**Business Deductions = **\$15,000**Net Earnings = **\$60,000**SE Taxes = **\$8,477**Fed Income Tax = **\$4,206**State Tax = **\$1,652**TOTAL TAX DUE: **\$14,335***(19% of Gross Profit)***DIFFERENCE: \$1,443**

So even if you made **\$75,000** this year with your business,
you really only have **\$60,661** to spend personally.

Which is why you should always set aside minimum ~ **20 to 25%** of your freelance
income to be able to cover your tax bill.

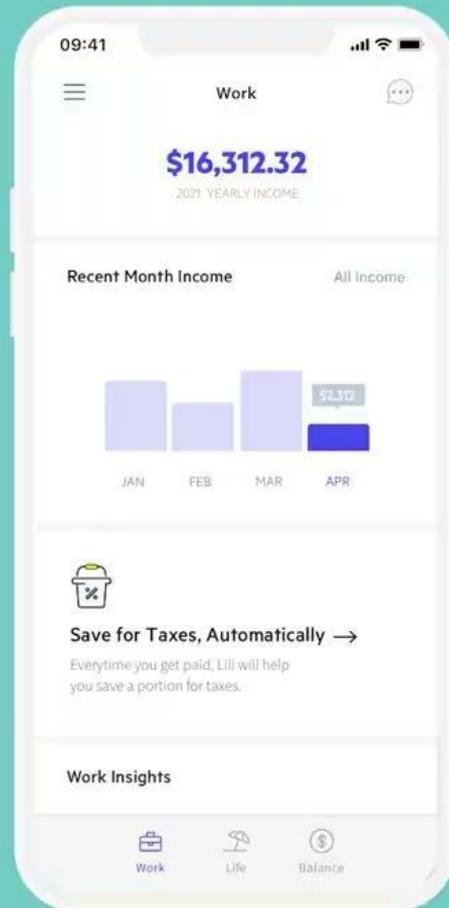
Reminder, quarterly estimated taxes

- When you are a W-2 employee you are paying your taxes weekly in the form of paycheck withholdings
- As business owners, we pay estimated taxes four times a year (Basically divide what you estimate you will make for a year into four)
- Do not stress, work with your CPA to set up your payments.
- Safe-Harbor is set up, so you aren't penalized if you under-estimate,
90% of taxes due for the current year, **or**
100% of last year's taxes paid
(110% if your prior year's Adjusted Gross Income was more than \$150,000)

Reminder, quarterly estimated taxes

Payment	Income received between	Due Date
1st Payment	January 1st to March 31st	April 15
2nd Payment	April 1st to May 31st	June 15
3rd Payment	June 1st to August 31st	September 15
4th Payment	September 1st to December 31st	January 15

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Thank you!

Email me with questions: wendi@sq-biz.com

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