

LEARNING MADE EASY



3rd Edition

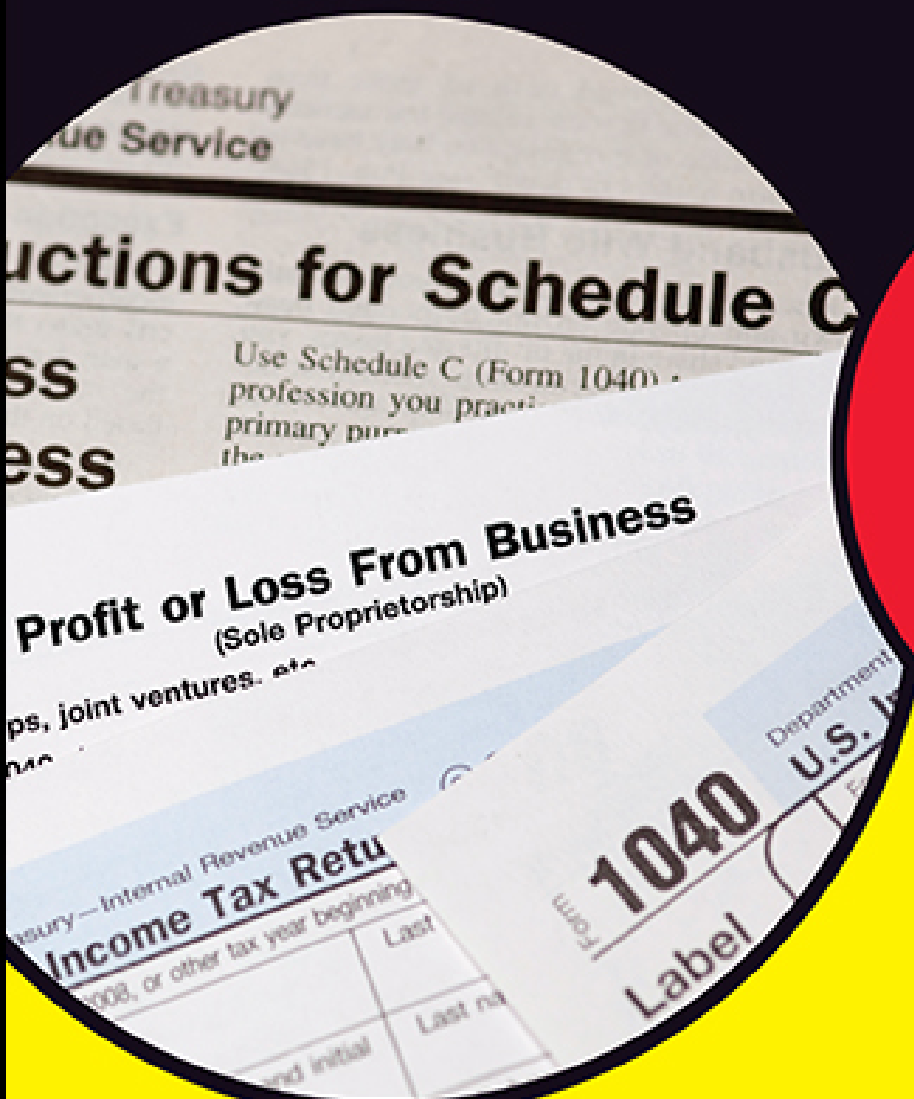
# Small Business Taxes

for  
**dummies**<sup>®</sup>  
A Wiley Brand

Get all the details  
on the new tax rules

Claim and maximize  
your tax deductions

Boost your tax IQ and  
stay ahead of the game



**Eric Tyson, MBA**

Bestselling author, *Personal Finance For Dummies*

# ***Praise for Eric Tyson's Best-Selling For Dummies Titles***

“Eric Tyson For President!!! Thanks for such a wonderful guide. With a clear, no-nonsense approach to ... investing for the long haul, Tyson’s book says it all without being the least bit long-winded. Pick up a copy today. It’ll be your wisest investment ever!!!”

—Jim Beggs, VA

“Eric Tyson is doing something important — namely, helping people at all income levels to take control of their financial futures. This book is a natural outgrowth of Tyson’s vision that he has nurtured for years. Like Henry Ford, he wants to make something that was previously accessible only to the wealthy accessible to middle-income Americans.”

—James C. Collins, coauthor of the national bestsellers *Built to Last* and *Good to Great*

“The organization of this book is superb! I could go right to the topics of immediate interest and find clearly written and informative material.”

—Lorraine Verboort, Beaverton, OR

“Among my favorite financial guides are ... Eric Tyson’s *Personal Finance For Dummies*.”

—Jonathan Clements, the *Wall Street Journal*

“In *Investing For Dummies*, Tyson handily dispatches both the basics ... and the more complicated.”

—Lisa M. Sodders, *The Capital-Journal*

“Smart advice for dummies ... skip the tomes ... and buy *Personal Finance For Dummies*, which rewards your candor with advice and comfort.”

—Temma Ehrenfeld, *Newsweek*

“You don’t have to be a novice to like *Mutual Funds For Dummies*. Despite the book’s chatty, informal style, author Eric Tyson clearly has a mastery of his subject. He knows mutual funds, and he knows how to explain them in simple English.”

—Steven T. Goldberg, *Kiplinger’s Personal Finance*  
magazine

“Eric Tyson ... seems the perfect writer for a ... *For Dummies* book. He doesn’t tell you what to do or consider doing without explaining the why’s and how’s — and the booby traps to avoid — in plain English... . It will lead you through the thickets of your own finances as painlessly as I can imagine.”

—Clarence Peterson, *Chicago Tribune*

“*Personal Finance For Dummies* is the perfect book for people who feel guilty about inadequately managing their money but are intimidated by all of the publications out there. It’s a painless way to learn how to take control.”

—Karen Tofte, producer, National Public Radio’s  
*Sound Money*

# ***More Bestselling For Dummies Titles by Eric Tyson***

## ***Investing For Dummies®***

A *Wall Street Journal* bestseller, this book walks you through how to build wealth in stocks, real estate, and small business as well as other investments. Also check out the recently released *Investing in Your 20s and 30s For Dummies*.

## ***Mutual Funds For Dummies®***

This best-selling guide is now updated to include current fund and portfolio recommendations. Using the practical tips and techniques, you'll design a mutual fund investment plan suited to your income, lifestyle, and risk preferences.

## ***Personal Finance in Your 20s For Dummies®***

This hands-on, friendly guide provides you with the targeted financial advice you need to establish firm financial footing in your 20s and to secure your finances for years to come. When it comes to protecting your financial future, starting sooner rather than later is the smartest thing you can do.

## ***Home Buying For Dummies®***

America's #1 real-estate book includes coverage of online resources in addition to sound financial advice from Eric Tyson and frontline real-estate insights from industry veteran Ray Brown. Also available from America's best-selling real estate team of Tyson and

Brown — *House Selling For Dummies* and *Mortgages For Dummies* (with Robert Griswold).

### ***Real Estate Investing For Dummies®***

Real estate is a proven wealth-building investment, but many people don't know how to go about making and managing rental property investments. Real estate and property management expert Robert Griswold and Eric Tyson cover the gamut of property investment options, strategies, and techniques.

### ***Small Business For Dummies®***

This practical, no-nonsense guide gives expert advice on everything from generating ideas and locating start-up money to hiring the right people, balancing the books, and planning for growth. You'll get plenty of help ramping up your management skills, developing a marketing strategy, keeping your customers loyal, and much more. And, find out to use the latest technology to improve your business's performance at every level. Also available from co-authors Eric Tyson and Jim Schell, *Small Business Taxes For Dummies*.



# Small Business Taxes

3rd Edition

**by Eric Tyson, MBA**  
Financial consultant and bestselling author

**for  
dummies**  
A Wiley Brand

## **Small Business Taxes For Dummies®**, 3rd Edition

Published by

**Wiley Publishing, Inc.**

111 River St.

Hoboken, NJ 07030-5774

[www.wiley.com](http://www.wiley.com)

Copyright © 2022 by Eric Tyson

Published by Wiley Publishing, Inc., Indianapolis, Indiana

Published simultaneously in Canada

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

**Trademarks:** Wiley, For Dummies, the Dummies Man logo, Dummies.com, Making Everything Easier, and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc., and may not be used without written permission. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc., is not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: WHILE THE PUBLISHER AND AUTHORS HAVE USED THEIR BEST EFFORTS IN PREPARING THIS WORK,
---

THEY MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS WORK AND SPECIFICALLY DISCLAIM ALL WARRANTIES, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. NO WARRANTY MAY BE CREATED OR EXTENDED BY SALES REPRESENTATIVES, WRITTEN SALES MATERIALS OR PROMOTIONAL STATEMENTS FOR THIS WORK. THE FACT THAT AN ORGANIZATION, WEBSITE, OR PRODUCT IS REFERRED TO IN THIS WORK AS A CITATION AND/OR POTENTIAL SOURCE OF FURTHER INFORMATION DOES NOT MEAN THAT THE PUBLISHER AND AUTHORS ENDORSE THE INFORMATION OR SERVICES THE ORGANIZATION, WEBSITE, OR PRODUCT MAY PROVIDE OR RECOMMENDATIONS IT MAY MAKE. THIS WORK IS SOLD WITH THE UNDERSTANDING THAT THE PUBLISHER IS NOT ENGAGED IN RENDERING PROFESSIONAL SERVICES. THE ADVICE AND STRATEGIES CONTAINED HEREIN MAY NOT BE SUITABLE FOR YOUR SITUATION. YOU SHOULD CONSULT WITH A SPECIALIST WHERE APPROPRIATE. FURTHER, READERS SHOULD BE AWARE THAT WEBSITES LISTED IN THIS WORK MAY HAVE CHANGED OR DISAPPEARED BETWEEN WHEN THIS WORK WAS WRITTEN AND WHEN IT IS READ. NEITHER THE PUBLISHER NOR AUTHORS SHALL BE LIABLE FOR ANY LOSS OF PROFIT OR ANY OTHER COMMERCIAL DAMAGES, INCLUDING BUT NOT LIMITED TO SPECIAL, INCIDENTAL, CONSEQUENTIAL, OR OTHER DAMAGES.

For general information on our other products and services, please contact our Customer Care Department



within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002. For technical support, please visit <https://hub.wiley.com/community/support/dummies>.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit [www.wiley.com](http://www.wiley.com).

Library of Congress Control Number: 2021952989

ISBN 978-1-119-86114-0 (pbk); ISBN 978-1-119-86115-7 (ebk); ISBN 978-1-119-86116-4 (ebk)

# Small Business Taxes For Dummies®

To view this book's Cheat Sheet, simply go to [www.dummies.com](http://www.dummies.com) and search for “Small Business Taxes For Dummies Cheat Sheet” in the Search box.

## Table of Contents

[Cover](#)

[Title page](#)

[Copyright](#)

[Introduction](#)

[About This Book](#)

[Foolish Assumptions](#)

[Icons Used in This Book](#)

[Beyond the Book](#)

[Where to Go from Here](#)

[\*\*Part 1: Understanding Small Business Taxes\*\*](#)

[\*\*Chapter 1: Small Business Taxes 101\*\*](#)

[Valuing Year-Round Tax Planning](#)

[Noting How Corporate and Individual Tax Reform Impacts Small Business](#)

[Considering the SECURE ACT of 2019 and COVID-19 Relief Tax Acts](#)

[Contemplating Potential Upcoming Tax Law Changes](#)  
[Understanding the Different Types of Taxes You Pay and Your Tax Rates](#)

## **Chapter 2: Making Important Business Decisions**

[Choosing Your Business Entity](#)  
[Valuing Employee Benefits](#)

## **Chapter 3: Retirement Accounts and Investments for Small Businesses**

[Beginning with Retirement Account Basics: Tax Breaks, Penalties, and Saving Guidelines](#)  
[Surveying Your Retirement Account Options](#)  
[Developing Realistic Investment Return Expectations](#)  
[Selecting Top-Notch Investments for Your Retirement Account](#)

## **Chapter 4: Real Estate and Your Small Business**

[Deciding Whether to Work out of Your Home](#)  
[Leasing Space for Your Business](#)  
[Buying Business Property](#)

## **Chapter 5: Estate Planning**

[Determining Your Estate's Tax Concerns](#)  
[Reducing Expected Estate Taxes with a Few Strategies](#)

## **Part 2: Ongoing Tax Jobs**

### **Chapter 6: Keeping Track of Your Small Business Revenues and Costs**

[Establishing an Accounting System for Your Business](#)  
[Keeping Good Tax Records for Your Small Business](#)

### **Chapter 7: Form 1040 Filing Options**

[Sizing Up the New and Improved Form 1040](#)  
[Tackling the Income Lines](#)  
[Schedule 1: Additional Income and Adjustments to Income](#)  
[Adjustments to Income](#)

[Nonrefundable Credits: Schedule 3](#)

## **Chapter 8: Schedule C: Profit or Loss From Business**

[Detailing Schedule C](#)

[Getting the Basics Down](#)

[Part I: Income](#)

[Part II: Expenses](#)

## **Chapter 9: The Business Use of Your Home**

[Checking Out the New, Simplified Home Office Deduction](#)

[Filling Out Form 8829](#)

[Understanding the Downsides to Home Office Deductions](#)

## **Chapter 10: Estimated Taxes, Self-Employment Taxes, and Other Common Forms**

[Form 1040-ES: Estimated Tax for Individuals](#)

[Keeping Current on Your Employees' \(and Your Own\) Tax Withholding](#)

[Schedule SE: Self-Employment Tax](#)

[Form 8889: Health Savings Accounts \(HSAs\)](#)

## **Part 3: Getting Help**

### **Chapter 11: Dealing with Notices and Audits**

[Understanding the Basics You'll Find on an IRS Notice](#)

[Assessing Assessment Notices](#)

[Handling Non-Assessment Notices](#)

[What You Should Know about Audits](#)

[Correcting IRS Errors](#)

[Amending a Return](#)

[Taking Action Even When You Can't Pay Your Taxes](#)

[Reducing Your Chances of Being Audited](#)

### **Chapter 12: Keeping Up with and Researching Tax Strategies and Rules**

[The Benefits of Preparing Your Own Return](#)

[Using IRS Publications](#)

[Buying Software](#)

[Accessing Internet Tax Resources](#)

[Hiring Help](#)

## **Chapter 13: Paying for Tax Help**

[Deciding to Hire Tax Help](#)

[Finding Tax Advisors](#)

[Interviewing Prospective Tax Advisors](#)

## **Part 4: The Part of Tens**

### **Chapter 14: Ten+ Useful Apps and Software Packages for Small Business Tax Issues**

[Tracking Expenses with Expensify](#)

[Processing Sales with Square](#)

[Managing Transactions with EMS+](#)

[Marking Miles with MileIQ](#)

[Managing Your Accounting with QuickBooks](#)

[Handling Accounting and Invoicing with FreshBooks](#)

[Preparing Taxes with TurboTax Self-Employed](#)

[Completing Taxes with H&R Block Tax Preparation and Filing Software](#)

### **Chapter 15: Ten Often Overlooked Tax Reduction Opportunities**

[Invest in Wealth-Building Assets](#)

[Fund Some Retirement Accounts](#)

[Contribute to a Health Savings Account](#)

[Work Overseas](#)

[Calculate Whether a Deduction Is Worth Itemizing](#)

[Trade Consumer Debt for Mortgage Debt](#)

[Consider Charitable Contributions and Expenses](#)

[Scour for Self-Employment Expenses](#)

[Married Couples Should Crunch the Numbers on Filing Separately](#)

[Tax Breaks for Minority Owned Businesses and Those in Low-Income Areas](#)

## **Chapter 16: Ten Resources to Turn to After Reading This Book**

[To Develop a Good Business Plan and Improve Your Small Business](#)

[To Whip Your Finances into Shape](#)

[To Select the Best Business Entity](#)

[To Set Up an Accounting and Financial Management System](#)

[To Hone Your Investment Savvy for Your \(and Your Employees'\) Retirement Funds](#)

[For Help with Payroll Regulations and Employee Tax Withholdings](#)

[To Dig Deeper into IRS Rules and Regulations](#)

[To Deal with IRS Collection Efforts](#)

[For More Detailed Advice about All Aspects of Your Income Tax Return](#)

[For Assistance in Preparing Your Income Tax Return](#)

**[Index](#)**

**[About the Author](#)**

**[Advertisement Page](#)**

**[Connect with Dummies](#)**

**[End User License Agreement](#)**

# List of Tables

## **Chapter 1**

[TABLE 1-1 2022 Federal Income Tax Brackets and Rates](#)

## **Chapter 3**

[TABLE 3-1 “Saver’s Tax Credit” for the First \\$2,000 in Retirement Plan Contribut...](#)

[TABLE 3-2 How Compounding Grows Your Investment Dollars](#)

[TABLE 3-3 Longer-Term Fund Asset Allocation](#)

## **Chapter 5**

[TABLE 5-1 States with an Estate or Inheritance Tax](#)

## **Chapter 7**

[TABLE 7-1 A General Guide to What Schedule\(s\) You'll Need to File](#)

## **Chapter 9**

[TABLE 9-1 The Simplified Option versus the Regular Method](#)

[TABLE 9-2 Depreciation Percentage for Business Use of Home](#)

# **List of Illustrations**

## **Chapter 1**

[FIGURE 1-1: State marginal tax rates.](#)

## **Chapter 2**

[FIGURE 2-1: The corporate tax form — IRS Form 1120 — entails a high degree of d...](#)

[FIGURE 2-2: Page one of IRS Form 1120S, "U.S. Income Tax Return for an S Corpor...](#)

[FIGURE 2-3: Page one of IRS Form 1040 Schedule E, "Supplemental Income and Loss..."](#)

## **Chapter 7**

[FIGURE 7-1: Form 1040.](#)

[FIGURE 7-2: Schedule 1 of Form 1040.](#)

[FIGURE 7-3: Schedule 3 of Form 1040, Page 1.](#)

## **Chapter 8**

[FIGURE 8-1: Schedule C, page 1.](#)

## **Chapter 9**

[FIGURE 9-1: Form 8829, "Expenses for Business Use of Your Home."](#)

## **Chapter 10**

[FIGURE 10-1: Schedule SE.](#)

# Introduction

---

Welcome to the third edition of *Small Business Taxes For Dummies!*

Starting and operating a small business involves many moving parts and issues. Money is the lifeblood of any business. You need money to start a business, and you need money to keep a business going.

As you earn and spend money in your business, taxes permeate just about everything that you do. Taxes are too often maddeningly complicated. But they need not be so. Enter this book! And the Tax Cuts and Jobs Act federal income tax bill, which took effect in 2018, produced many changes that reduced and positively impacted small-business taxes. There have been additional and important tax law changes since, which are included in this latest edition.

I've owned and operated numerous small businesses in my life. I love the freedom and opportunity to pursue what I believe in and what interests me. And I generally detest dealing with tax issues. But I also know how important tax issues are in terms of the financial success or lack thereof for a small business.

Handled in the best possible way, you can save yourself tens of thousands — if not hundreds of thousands — of dollars by making informed tax moves. And you can comply with the tax rules and regulations and stay out of trouble with the Internal Revenue Service and your state and local tax authorities.

But if you stick your head in the sand or give in to the complexities of the tax laws, you may end up in trouble both financially and with the law.



# *About This Book*

For most folks, their single biggest “expense” is their tax bill. And for tens of millions of small-business owners, the nation’s tax laws are a complex and constantly changing web ready to trip them up and siphon off their most precious and valuable business resource — their money.

*Small Business Taxes For Dummies*, 3rd edition, assists both current and aspiring small-business owners with important tax planning issues, filing issues, dealing with IRS audits and notices, getting help, and more.

This book provides you with a crash course on taxes and your small business. Specifically, the goal is to ensure your understanding of the myriad tax rules and incentives so you can legally minimize your tax bill, stay in compliance with the law, and maximize your company’s success. You need not read this book in the order it’s presented. You can use the book as a reference and selectively read material currently relevant and of greatest interest to you.

Here are the biggest changes and updates in this edition:

- » Impact of COVID-19 and tax breaks associated with it
- » Expanded discussion of newer retirement account options
- » Additional discussion of the 20 percent qualified business income deduction
- » Expanded coverage of issues affecting incorporated small businesses, partnerships, and LLCs
- » Additional coverage of websites, apps, and other online tax resources

» Pending/likely changes coming from new Congress

I've written this book so you can efficiently find information and easily understand what you find. And although I'd like to believe that you want to pore over every last word I've written, I actually make it easy for you to identify "skippable" material. This information is the stuff that, although interesting, isn't essential for you to know. Text in sidebars: The sidebars are the shaded boxes that appear here and there. They include helpful information and observations but aren't necessary reading.

## ***Foolish Assumptions***

In writing this book, I made some assumptions about you, dear reader:

- » You want expert advice about important small-business tax and financial topics — such as the best way to purchase and write off equipment and other business expenses, establish and fund retirement accounts, and correctly complete common business tax forms — and you want answers efficiently.
- » Perhaps you want a crash course in small-business tax and financial issues and are looking for a book to help solidify major financial concepts and get you thinking about your small-business taxes in a more comprehensive way.

This book is basic enough to help novices get their arms around thorny tax issues. But advanced readers will be challenged, as well, to think about their small-business taxes in a new way and identify areas for improvement.

# *Icons Used in This Book*

The icons in this book help you find particular kinds of information that may be of use to you.



**TIP** This target flags strategy recommendations for making the most of your small-business tax decisions.



**ERIC'S PICKS** This icon highlights the best products and services I've come across in the small business tax arena.



**REMEMBER** This icon points out information that you'll definitely want to take away from this book.



**WARNING** This icon marks things to avoid and points out common mistakes people make when making small-business and tax decisions.



**INVESTIGATE** This icon tells you when you should consider doing some additional research. Don't worry — I explain what to look for and what to look out for.

## *Beyond the Book*

In addition to the material in the print or e-book you're reading right now, this product also comes with some access-anywhere goodies on the web. Go to [www.dummies.com](http://www.dummies.com) and type in "Small Business Taxes For Dummies Cheat Sheet" in the search box to discover a list of pointers that can help you think about the role of money in your life and start achieving your financial goals.

## ***Where to Go from Here***

This book is organized so you can go wherever you want to find complete information. You can check out the table of contents to find broad categories of information and a chapter-by-chapter rundown of what this book offers, or you can look up a specific topic in the index.

If you're not sure where you want to go, you may want to turn a few pages and start at the beginning with [Part 1](#). It gives you all the basic information you need to assess your small-business tax situation and points to places where you can find more detailed information for improving it.

## **Part 1**

# **Understanding Small Business Taxes**

## IN THIS PART ...

Minimize your tax bill through year-round tax planning and understand the tax law changes. Be sure to factor taxes into your small business decisions, check out common tax mistakes, and understand tax terms and rates.

Decide what business entity (corporation, LLC, sole proprietorship, and so on) to use, and consider what benefits to offer to your employees.

Investigate your small-business retirement account options — such as SEP-IRAs, SIMPLE plans, 403(b) plans, and 401(k) plans — and select top-notch investments.

Handle small-business real estate decisions, such as deciding whether to work out of your home, lease space, or buy property.

Plan your estate, including your small business. Determine your estate's tax concerns and reduce your expected estate taxes.

# Chapter 1

## Small Business Taxes 101

---

### IN THIS CHAPTER

- » **Appreciating the value of year-round tax planning**
  - » **Understanding recent important tax law changes affecting small businesses**
  - » **Checking on changes made by the SECURE Act of 2019 and COVID-19 relief bills**
  - » **Looking ahead to possible upcoming tax law changes**
  - » **Noting the various taxes you and your business pay**
- 

Even though I write about personal finances, including tax issues, I don't particularly enjoy dealing with taxes. I would rather cut my lawn, take care of my neighbor's dog, or even visit my dentist (for a routine cleaning). At least in all these cases, I know my time commitment is reasonably limited, and when I'm done, I'm satisfied that the job has been done well and I can move on to something else.

Filling out state and federal tax forms is often complicated and confusing. Because I write about taxes, I feel that it's essential for me to complete my own income tax forms and returns, which forces me to wallow in the details as much as possible so that I can more fully appreciate the challenges taxpayers face. (By contrast, prior surveys have found that the representatives in

Congress who sit on committees that draft the nation's tax laws generally use paid tax preparers themselves.) Not surprisingly, a report from the National Taxpayer Advocate cited "the complexity of the tax code as the No. 1 most serious problem facing taxpayers."

Though some of this book deals with the drudgery of completing required tax forms, much of it deals with the more interesting — and dare I say, fun — part of small business taxes, which is planning ahead and strategizing so as to reduce and minimize your taxes. You see, if you simply view your role with taxes and your small business as jumping through the many hoops that federal, state, and local authorities require, you're missing out on something potentially really big — saving and keeping more of your hard-earned money.

This chapter introduces the basics of small business taxes. Here, I discuss the value of tax planning all year long. I also explain recent tax law changes along with those you may see in the future. Finally, I define some important tax-related terms regarding the taxes you pay or may come across.

## ***Valuing Year-Round Tax Planning***

Taxes are a large, vital piece of your small-business and personal financial puzzle. You're required by law to complete your income tax forms each year and pay the taxes you owe. You do this because you have deadlines and don't want contact initiated by local or state authorities or the IRS to result in fines, penalties, or worse, jail time!



Nothing really forces you to plan ahead regarding your tax situation and small business. That's why the vast majority of small-business owners don't take steps year-round to plan and reduce their taxes. However, tax planning all year is valuable because it enables you to stay on top of your tax and business financial situation and minimize the taxes you legally owe. In this section, I explain typical ways in which taxes enter small-business decisions and some common tax mistakes folks make in this realm.

## ***Factoring taxes into small business decisions***



**REMEMBER** Taxes infiltrate many areas of your small business and your personal finances. Some people make important financial decisions without considering taxes (and other important variables). Conversely, in an obsession to minimize or avoid taxes, other people make decisions that are counterproductive to achieving their long-term business and personal financial goals. Although taxes are an important component to factor into your major business and financial decisions, taxes shouldn't drive or dictate the decisions you make.

The following list shows some of the ways that tax issues are involved in making sound financial decisions throughout the year.

- » **Type of business and benefits offered:** The type of business entity you select for your business — sole proprietorship, limited liability company (LLC), S corporation, and so on — can have significant tax and other consequences. The benefits you're able to utilize

and offer to your employees, if you have them, also have tax ramifications (see [Chapter 2](#)).

- » **Retirement accounts:** Taking advantage of retirement accounts can mean tens, perhaps even hundreds, of thousands more dollars in your pocket come retirement time. Offering retirement account access to your employees can also be a valuable employee benefit for recruiting and retaining good employees if they understand what they have. Refer to [Chapter 3](#) for more on retirement accounts.
- » **Spending:** Throughout this book, I discuss myriad spending decisions you may face in your small business, such as buying equipment ([Chapter 8](#)), spending on employee benefits ([Chapter 2](#)), and so on. These decisions will often affect your taxes both now and in the future.
- » **Protecting your assets:** Some of your insurance decisions also affect the taxes you pay. You'd think that after a lifetime of tax payments, your heirs would be left alone when you pass on to the great beyond — but that's wishful thinking. Estate planning can reduce the taxes that are siphoned off from your estate. See [Chapter 5](#) to find out more about estate planning.
- » **Tracking your business financials:** Throughout the year, you should stay on top of your business's income and expenses so that you can see your business's financial health and record the numbers you need come tax time. [Chapter 6](#) covers these important issues.

## ***Checking out common tax mistakes***

Even if some parts of the tax system are hopelessly and unreasonably complicated, there's no reason why you can't learn from the mistakes of others to save yourself

some money, no matter the time of year. With this goal in mind, this section details common tax blunders that people make when it comes to managing their money.

### ***Seeking advice after an important decision***

Too many people seek out information and hire help *after* making a decision, even though seeking preventive help ahead of time generally is wiser and more financially beneficial.



**TIP** Before making major small business and financial decisions, educate yourself. This book can help answer many of your questions. You may also want to do further research on your own (see [Chapter 12](#)) and/or hire a tax advisor (refer to [Chapter 13](#)) for some advice before making your decision(s).

### ***Failing to withhold or submit enough taxes***

If you're self-employed (or earn significant taxable income from investments outside retirement accounts), you need to make estimated quarterly tax payments. You also need to withhold taxes for your employees and send those taxes along to the appropriate tax agencies. Some small-business owners don't have a human resources department to withhold taxes and dig themselves into a perpetual tax hole by failing to submit estimated quarterly tax payments.

To make quarterly tax payments, complete IRS Form 1040-ES, "Estimated Tax for Individuals." This form (discussed in [Chapter 10](#)) and its accompanying instructions (and payment coupons) explain how to calculate quarterly tax payments. You can submit payments by mail or electronically through creating/using an online account on the IRS website

(<https://www.irs.gov/>). For more information on the requirement for employee tax withholding, see [Chapter 6](#).

## ***Missing legal deductions***



**REMEMBER** Some taxpayers miss out on legitimate tax write-offs because they just don't know about them. If you aren't going to take the time to discover the legal deductions that are available to you and that I discuss throughout this book, then you should pay for the cost of a competent tax advisor at least once. Fearing an audit, some taxpayers (and even some tax preparers) avoid taking deductions that they have every right to take. Unless you have something to hide, such behavior is foolish and costly. Note that a certain number of returns are randomly audited every year, so even when you don't take every allowable deduction, you may nevertheless get audited! And, if you read [Chapter 11](#), you can find out how to deal with an audit like a pro.

## ***Forsaking retirement accounts***

All the tax deductions and tax deferrals that come with accounts such as 401(k)s, SEP-IRA plans, and individual retirement accounts (IRAs) were put in the tax code to encourage you to save for retirement. That's something that you as a small-business owner should be doing for yourself as well as encouraging your employees to do.

Most excuses for missing out on these accounts just don't make good financial sense. Some folks underfund retirement accounts because they spend too much and because retirement seems so far away. Others mistakenly believe that retirement account money is totally

inaccessible until they're old enough to qualify for senior discounts. (See [Chapter 3](#) to find out all about your small-business retirement account options.)

### ***Not owning real estate***

In the long run, owning a home should cost you less than renting. And because mortgage interest (on up to \$750,000 of mortgage debt) and property taxes (up to \$10,000 when combined with your state income tax payments) are deductible, the government, in effect, subsidizes the cost of homeownership. (Stay tuned as the state and local tax limit — aka SALT — may be increased higher than \$10,000 in 2022.)

If you have a home office, you may be able to take additional expenses on your tax return. If you need a retail or commercial space for your small business, you should compare leasing to buying and be sure to factor in the tax benefits of owning. See [Chapter 4](#) for more about real estate and taxes.

### ***Neglecting the timing of events you can control***



**TIP** As a small-business owner, you should pay attention to how your net income for the year is shaping up for the current year and how things are looking for next year. For example, if you're in the early stages of your business and you can see that you'll have more income next year, then it may be in your best interest tax-wise to delay paying some expenses from late in the current year into early next year. (This works when using cash basis accounting.)

Or suppose that you operate on a cash accounting basis and think that you'll be in a lower tax bracket next year.

Perhaps business has slowed of late or you plan to take time off to be with a newborn or take an extended trip. You can send out some invoices later in the year so that your customers won't pay you until January, which falls in the next tax year.

### ***Not using tax advisors effectively***



**REMEMBER** If your financial situation is complicated, going it alone and relying only on the IRS publications to figure your taxes usually is a mistake. Many people find the IRS instructions tedious and not geared toward highlighting opportunities for tax reductions. Instead, you can start by reading the relevant sections of this book. When you're overwhelmed by the complexity of particular small-business and tax decisions, get advice from tax and financial advisors who sell their time and nothing else. ([Chapter 13](#) has tips on hiring help.)

As a small business owner, ask yourself how much you're worth running your business versus how much you're worth as a bookkeeper. Then ask yourself which task you enjoy more and consider hiring a bookkeeper.

Note that using a tax advisor is most beneficial when you face new tax questions or problems. If your tax situation remains complicated or if you know that you'd do a worse job on your own, by all means keep using a tax preparer. If your situation is unchanging or isn't that complicated, consider hiring and paying someone to figure out your taxes one time. After that, go ahead and try completing your own tax returns.