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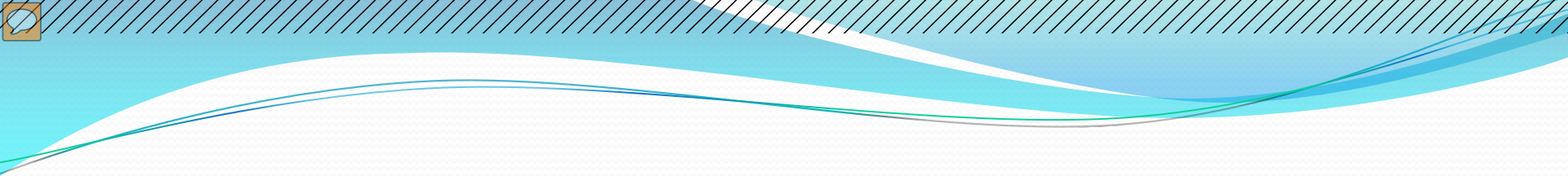
Business Accounting 101 for
Independents - A Panel Discussion

T21

Liz O'Sullivan

Tuesday, September 24, 2013





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#T21 #CONSTRUCT



Course Description

This panel discussion course is for product reps, specifiers, and other consultants who are getting started as independents, or just considering going out on their own. A panel including an accountant, a bookkeeper, a product rep, and an independent specifications consultant will discuss business accounting basics for independents. There will be lots of time for questions. If you think you may "hang out your own shingle" sometime in the next 5 years, you should attend this session!

Learning Objectives

At the end of the this course, participants will be able to:

1. Explain the importance of getting a business's books set up correctly from the beginning.
2. Discuss expenses and tax obligations for starting a business, and the potential of tax penalties for not keeping accurate records.
3. Decide whether a business needs an accountant, a bookkeeper, and bookkeeping software.
4. Explore how adding employees changes things.

Tweet away.

- If you use Twitter and want to tweet during the presentation, that's fine.
- Follow @CONSTRUCTShow and @CSIConstruction on Twitter.
- #CONSTRUCT is the hashtag for general Construct things.
- #T21 #CONSTRUCT is the hashtag for this presentation. It's in the footer of all the slides.
- I am @LizOSullivanAIA on Twitter.



Panel and Speaker

- Gina M. Paoli, CPA (Certified Public Accountant)
- Brent Williams, Product Representative
@Brent_Williams1
- Liz O'Sullivan, Specifications Consultant, Bookkeeper



Don't fear the unknown!

- Don't fear the unknown about running your own operation...
- But don't be falsely confident about the unknown, either.

Independence

- The reasons we go independent are all over the place.
- Whatever the reason, even if you are independent out of necessity, and consider being independent just temporary until you find a new job, you **HAVE TO GET THE ACCOUNTING RIGHT.**
- Being on your own can offer freedom and flexibility...
- But you absolutely cannot ignore the taxes you'll owe, the reports you have to file, and the records you'll have to keep.



What's my legal structure? ... & why does it matter?

- You need to decide on a legal structure for your business.
- The legal structure determines the rules you have to follow, determines what tax return forms you file, and determines what things you need to register with different government agencies.
- Even if you're a consultant working for just one firm, if you're independent, you run a business.
- For your bottom line, and your success, it's important to think about your operation as a business.

You're in Business

CORRECTED (if checked)

PAYER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone no.		1 Rents \$	OMB No. 1545-0115 2013	Miscellaneous Income
		2 Royalties \$	Form 1099-MISC	
		3 Other income \$	4 Federal income tax withheld \$	
PAYER'S federal identification number	RECIPIENT'S identification number	5 Fishing boat proceeds \$	6 Medical and health care payments \$	Copy B For Recipient
RECIPIENT'S name Street address (including apt. no.) City or town, province or state, country, and ZIP or foreign postal code		7 Nonemployee compensation \$	8 Substitute payments in lieu of dividends or interest \$	
		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds \$	
		11 Foreign tax paid \$	12 Foreign country or U.S. possession	
Account number (see instructions)		13 Excess golden parachute payments \$	14 Gross proceeds paid to an attorney \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
15a Section 409A deferrals \$	15b Section 409A income \$	16 State tax withheld \$	17 State/Payer's state no. \$	18 State income \$

Form **1099-MISC** (keep for your records) www.irs.gov/form1099misc Department of the Treasury - Internal Revenue Service

It's just me.

Does it have to be so formal?

- No, it doesn't have to be too formal. If it's just you, no partners, and no employees, you have some good legal structure options.

Sole Proprietorship

- Your least formal option is a **Sole Proprietorship**.
- This structure has the least amount of paperwork, and you just use your own legal name and your social security number on your tax forms.
- Downside: You are **personally** responsible for all the debts of the **business**.

more

Sole Proprietorship Options

- If you want your business to have a name, you can register a **trade name**, or a DBA (doing business as) name, with your state.
- The same downside applies: You are **personally** responsible for all the debts of the **business**.
- You have a little more paperwork than you would if you were just using your legal name.

LLCs

- You can register as a **Limited Liability Company**, an **LLC**, in your state. If you own 100% of the business, you're a single-member LLC, which files as a Sole Proprietor for taxes (unless you also form a Corporation).
- States differ in their treatment of LLCs, and if your business is a single-member LLC, it may not offer as much asset protection as an LLC with more members.
- To form an LLC in Colorado, you file an “Articles of Organization” with the state, and you adopt bylaws. Other states are similar.
- In Colorado, LLCs have to file annual periodic reports with the state. Other states are similar.

Corporation with Single Owner

- You can register as a **Corporation** in your state.
- Unlike sole proprietorships and single-member LLCs, corporations are totally separate from their owners.
- Typically, you wouldn't be personally liable for debts of the corporation, but, as with other structures, you could lose what you've invested in the corporation.
- To form a corporation in Colorado, you file an "Articles of Incorporation" with the state. Other states are similar.
- **Downside:** A regular corporation (C-Corp) will pay corporate income taxes, and, in addition, you will pay personal income taxes on your wages and on any profits of the business that you take. But...



you could form an S-Corp, and avoid double-taxation!

- If you are a corporation, and want to be an S-Corp (which you probably do), you first register as a corporation, and then fill out an additional federal form to be an **S-Corporation**.
- S-Corporations don't pay corporate income tax – like sole proprietorships, they are pass-through entities.
- S-Corps are good because they offer owners the protection of a corporation with the tax benefits of pass-through entities.
- Downside: Corporations require **lots more paperwork** than sole proprietorships do.

When you have a partner (or partners)...

- Tread carefully. Don't partner up with someone just because you both need someone to partner up with.
- Some of the most common legal structures include:
 - **Partnership**
 - **Limited Liability Company**
 - **Corporation, including S-Corp**
- All of these have more paperwork than Sole Proprietorships, yet a regular Partnership may not offer any more protection than a Sole Proprietorship. Each partner may be 100% liable for the debts of the Partnership. However...



Limited Liability Partnerships

- Lots of states offer legal structures for partnerships that do limit the liability for the partners.
- Colorado has the following:
 - **Limited Partnerships**
 - **Limited Liability Partnerships**
 - **Limited Liability Limited Partnerships**
- You just have to file the right forms. And consult with your CPA, and probably with an attorney, also.



Corporations and LLCs

- With more than one owner, corporations are the same as with just one owner.
- For Limited Liability Companies, with more than one member, you get the protections that LLCs are intended to provide.



Why does all this matter?

- All this legal structure information is really important.
- Although you can backtrack and change things later, if necessary, it will take you a lot of time to do that.
- Start it out right – set the legal structure of your business up right the first time. You may want to meet with a CPA to discuss your options.
- The structure of the business determines which tax forms you file, and what rules you follow, so it's best to do it the right way from the start.

Discussion on Legal Structure

- Questions on legal structure?



Set up a bank account.

- Do I need a separate bank account?
- YES.
- Even if you're just a Sole Proprietor doing business under your own legal name, set up a bank account for your business. This will make your bookkeeping much easier, and costs little or nothing each year.
- Your bank will likely require a separate bank account for all legal structures except for the Sole Proprietorship doing business under his or her legal name.



Set up your books.

- Do I need bookkeeping software?
- YES, my opinion is that you need bookkeeping software, such as Quickbooks or Sage 50 (Sage used to be Peachtree).
- Software links your income and expenses to your reports, such as your Profit and Loss Report.
- It links your invoices to your payments received.
- It's a tremendous time saver, and although it's not foolproof, it helps prevent dumb mistakes.



Discussion on Setting Up Books

- Questions on setting up your bookkeeping system, and using your bookkeeping system?



Get Paid!

- Disorganized clients are often slow-payers.
- Sometimes they lose invoices, sometimes they won't pay until paid...
- You have to stay on top of them.
- When you are organized, it's a breeze to send your slow-paying clients a monthly statement. Your software can generate it for you.
- When your client isn't sure what you invoiced for, or when, and YOU are also not sure... you are not likely to get paid.



Avoid Penalties

- The more organized you are, the more likely you are to be able to **efficiently** and **accurately** pay the bills and file the forms and tax returns you need to file.
- With bookkeeping software (and a well organized paper file) you'll know that you have the whole picture, and aren't missing any critical information necessary for accurate tax returns.
- The software makes it easy to stay on top of things, which is the only way to be efficient when it's tax time. You still have to do the work, but the software makes it easy.
- **KEEP UP WITH** the bookkeeping, and you're likely to avoid penalties, late fees, and bounced checks.



Your Profit and Loss Report

- If your bookkeeping is up to date, you can get an instant snapshot of the health of your business by generating a Profit and Loss Report.
- It shows your expenses and your income, and your bottom line.
- You can look at the report pretty generally, and if you notice that some of your overhead seems high, you can jump to the details of those expenses, all from that one document.
- It can be hard to understand a document that someone else prepared for you, as opposed to looking at the report generated from all those entries you made in the books yourself.

If you don't know what your profit is...

- ... until 3 months after year-end when your accountant prepares your returns...
- You're not effectively running a business.
- You are probably spending all your working hours practicing your profession, which is great, when you work for someone else.
- When you are independent, you need to be running a business, in addition to practicing your profession.

Expenses

- Within your bookkeeping software, set up your expense categories according to the tax forms you'll have to file. The business structure you selected determines the tax forms you have to file.
- See these expense categories? These match my Quickbooks expense categories.

Schedule C

SCHEDULE C (Form 1040) Profit or Loss From Business (Sole Proprietorship)

OMB No. 1545-0074
2012
 Attachment Sequence No. **09**

Department of the Treasury Internal Revenue Service (IRS)
 ▶ For information on Schedule C and its instructions, go to www.irs.gov/schedulec.
 ▶ Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

Name of proprietor _____ Social security number (SSN) _____

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

B Enter code from instructions _____

C Business name. If no separate business name, leave blank. _____

D Employer ID number (EIN) (see instr.) _____

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

F Accounting method: (1) Cash (2) Accrual (3) Other (specify) ▶ _____

G Did you "materially participate" in the operation of this business during 2012? If "No," see instructions for limit on losses Yes No

H If you started or acquired this business during 2012, check here Yes No

I Did you make any payments in 2012 that would require you to file Form(s) 1099? (see instructions) Yes No

J If "Yes," did you or will you file required Forms 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 W-2 and the "Statutory employee" box on that form was checked. <input type="checkbox"/>	1
2	Returns and allowances (see instructions)	2
3	Subtract line 2 from 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 federal and state gasoline 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	16	Office expenses (see instructions)	16
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):	20
11	Contract labor (see instructions)	11	a	Vehicles, machinery, and equipment	20a
12	Depreciation	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:	16	24	Travel, meals, and entertainment:	24
a	Mortgage (paid to banks, etc.)	16a	a	Travel	24a
b	Other	16b	b	Deductible meals and entertainment (see instructions)	24b
17	Legal and professional services	17	25	Utilities	25
18	Total expenses before expenses for business use of home. Add lines 8 through 27a	18	26	Wages (less employment credits)	26
19	Tentative profit or (loss). Subtract line 18 from line 7	19	27a	Other expenses (from line 48)	27a
20	Expenses for business use of your home. Attach Form 8829. Do not report such expenses elsewhere	20	b	Reserved for future use	27b
21	Net profit or (loss). Subtract line 20 from line 19	21	28	Total expenses for business use of home. Add lines 20 through 27b	28
22	If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3.	22	29	Net profit or (loss). Subtract line 28 from line 19	29
23	If a loss, you must go to line 32.	23	30	Expenses for business use of your home. Attach Form 8829. Do not report such expenses elsewhere	30
24	If you have a loss, check the box that describes your investment in this activity (see instructions).	24	31	Net profit or (loss). Subtract line 30 from line 29	31
25	If you checked 32a, enter the loss on both Form 1040, line 12, (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3.	25			
26	If you checked 32b, you must attach Form 6198. Your loss may be limited.	26			

32a All investment is at risk.
 32b Some investment is not at risk.

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11334P Schedule C (Form 1040) 2012

Do I need an Accountant?

- Probably. If you are going to be a Sole Proprietor, you'll be filing Schedule C, which is an attachment to the 1040, which most of us file for our federal income tax. If you have a CPA who's been preparing your personal income tax returns for you, it makes sense that this person would be the person who helps you prepare your Schedule C and answers your Sole Proprietor accounting questions.
- If you're going to be a Sole Proprietor, and you don't have a CPA, you should probably find one who can answer your questions.



For a Corporation

- If you are going to be a Corporation (C-Corp or S-Corp), you definitely need an accountant.
- You will want to find a CPA who works with small businesses, and who can prepare your annual income tax returns and schedules.



Discussion on Accounting

- Questions on accounting?
- Questions on working with an accountant?



Government Obligations

- Figure out what papers you'll have to file when you start a new business.
 - Articles of Incorporation (Corporation), Articles of Organization (LLC), Statement of Trade Name (DBA) – with the state.
 - If you are a Corporation, and want to be an S-Corp, file IRS Form 2553 “Election by a Small Business Corporation.” If you are going to be a regular Corporation (C-Corp) no initial filing with the federal government is necessary.
 - If you are a Corporation or Partnership, you will need to apply for a federal EIN (Employer’s Identification Number) even if you don’t have employees.

Government Obligations, cont.

- If you will be selling products, instead of, or in addition to, services, you will need to collect sales tax, and will need a sales tax license from your state, and you probably need a sales tax license from your municipality IN ADDITION.
- You may need a permit for a home occupation to have a home office if your primary office is at home. This would be issued by your municipality. Many cities, including Denver, require this.



Quarterly Estimated Tax Payments

- ALL independents have to pay personal quarterly estimated taxes, for federal and state taxes.
- If you don't make these payments, or if you underpay, you could be hit with a tax penalty.
- These payments are due mid-April, mid-June, mid-September, and mid-January, and are based on the earnings from the period ending a couple weeks before the due date.
- Federal Form: IRS Form 1040-ES.
- State form varies by state.


Tax Returns

- If you're a corporation, or if you have employees, you have to file a Form 941 each quarter. (Employer's Quarterly Federal Tax Return).
- You may have a state quarterly return, too.
- Corporations have to file annual tax returns. For an S-Corp, no payment is due with the return, but a Form 1120-S must be filed with the federal government. There's usually a state equivalent that must be filed, too.



Taxes for Pass-Through Entities

- For pass-through entities, your **personal income tax return** is where you'll indicate your income from your business.
- Most of us file a Federal Form 1040, U.S. Individual Income Tax Return.
- For an S-Corp, your business income is indicated on Schedule E to the 1040.
- For a Sole Proprietorship, your business income is indicated on Schedule C to the 1040.



Miscellaneous (and Surprise) Forms & Taxes

- Some municipalities have income tax requirements. Many don't. You are responsible for figuring out if you owe your city something, and when you owe it.
- Some tax forms you may be surprised to have to file (and pay):
 - State consumer use tax return.
 - Municipal consumer use tax return.
 - Municipal business personal property declaration (for office furniture and equipment).



Penalties

- Tax penalties. You'll probably pay some. We all make mistakes.
- To avoid penalties, file everything on time.
- If you realize you made a mistake on a form, fix it as soon as possible. Do not put this off. You'll have a penalty, or a late fee, but those things only get bigger over time.



Discussion on Taxes, etc.

- Questions about taxes?
- Questions about tax penalties?
- Questions about other government obligations?



Having Employees Changes EVERYTHING

- At some point, even if you start out by yourself, you may need to hire someone.
- Employee or independent contractor? Make sure you get this right.
- Give an Employee:
 - Federal form I-9.
 - Federal form W-4.
- Give an Independent Contractor:
 - Federal form W-9
- You will need to file for a federal EIN.



Employees

- You'll be paying **workers compensation insurance**, which you might not be paying if you're the only person working at your business, even if you are a Corporation.
- When you have employees (or are a Corporation) you have to file quarterly returns. This is usually Federal **Form 941**. You may have a state form, too.
- When you have employees (or are a Corporation) you'll annually file a Form 940, which is the **Employer's Annual Federal Unemployment Tax Return**.

Employees, cont.

- When you have employees (or are a Corporation) you'll annually file **Federal W-2's and a W-3**, and you may have a state form for this information, too.
- When you have employees (or are a Corporation) you'll file quarterly with your state for unemployment tax.
- In some states you have to **report new hires to the state**. Colorado has a Colorado State Directory of New Hires Website on which employers are supposed to report new employees.



Discussion on Employees

- Questions about employees?



Why didn't anyone tell me?

- NOBODY seems to be able to tell a new business owner everything.
- Even my husband's business CPA, who is truly fantastic, didn't tell us everything we needed to know in the beginning.
- Colorado has a good small business guide that addresses state and some federal things, but not city requirements.
- The IRS has a good small business guide that addresses federal tax issues, but nothing else.

Questions for the Panel?

- Any further questions for the panel?

- CPA: Gina M. Paoli
- Product Rep: Brent Williams
- Specifications Consultant: Liz O'Sullivan
- Bookkeeper: Liz O'Sullivan

Some Resources

- The IRS Small Business and Self-Employed Tax Center:
<http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed>
- Check out your state's resources. Here's the Colorado Business Resource Book: <http://www.coloradosbdc.org/resources/resource-book>
- The U.S. Small Business Administration may be able to help:
<http://www.sba.gov/category/navigation-structure/starting-managing-business>
- Check out your municipality's resources. Denver's Office of Economic Development has a "Business Startup Checklist" specific to Denver :
<http://www.denvergov.org/oed/DenverOfficeofEconomicDevelopment/BusinessServices/NineStepstoStartYourBusiness/tabid/435894/Default.aspx>
- Dig deeply, and in addition to your own research, ask your accountant and your small-business-owner friends and colleagues.



This concludes The American Institute of Architects
Continuing Education Systems Course

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