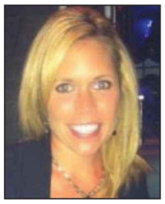
Small Business Owners Guide to Tax Deductions for 2024



By Beth Breslow, Breslow's Bookkeeping Business

One of the most common questions my small business owner clients ask me towards the end of the year or beginning of a new year is "What can I do to bring down my taxable income to avoid a hefty tax bill?" The below options can be implemented in 2024 to increase your tax deductions moving forward.

Wages and salaries: Hourly wages and annual salaries paid to employees are fully deductible, including bonuses and commissions.

Employee benefits: Employee benefits lead to tax deductions. The following employee programs are tax deductible: Education assistance, Childcare allowances, Life insurance adoption assistance and Qualified retirement plan accounts.

Contract labor: The cost of paying independent contractors, freelancers, and even legal and professional services are fully tax deductible as long as the payments made are more than $600.

Interest expenses: Small business loans and business credit cards are two vital financial resources, and the interest expense of business and some personal loan payments are tax-deductible.

Insurance: Business insurance is an unavoidable expense for small business owners but may make them eligible for a tax deduction.

Leasing costs: Rental payments made on an office space or retail space lease are tax deductible as a business expense as well as the interest on lease payments made on equipment financing, i.e., Copy Machine.

Taxes: Business taxes including federal, state, real estate, and sales taxes can be deducted. Other expenses like FICA, FUTA, and state unemployment taxes, are also 100 percent tax-deductible.

If your business is not currently utilizing any of the above mentioned, now is the time for 2024.

Ask SCORE

Self-Employment Tax 101 for Small Business Owners

When you have made the transition from someone else's employee to being your own boss, you gain the autonomy to create your own professional path. You get additional responsibilities, as well—including paying self-employment tax.

Self-employed individuals are required to not only directly submit the income tax they owe to the federal, state, and local governments, they must also remit self-employment tax to the IRS.

Who Is a "Self-Employed Individual"?

The IRS defines a self-employed individual as someone who conducts business as a sole proprietor, independent contractor, member of a partnership, or as someone who otherwise is in business for herself or himself.

What is Self-Employment Tax?

According to IRS.gov (https://www.irs.gov/businesses/small-businesses-self-employed/self-employed-individuals-tax-center), "Self-employment tax is a tax consisting of Social Security and Medicare taxes primarily for individuals who work for themselves. It is similar to the Social Security and Medicare taxes withheld from the pay of most wage earners."

Employees of a company pay half of their Social Security and Medicare taxes (usually withheld from their wages) and the employer pays the other half. As a self-employed individual, however, a business owner must remit the entire amount. Most self-employed persons, because their tax typically is not withheld from paychecks, must estimate their self-employment and income tax amounts due and pay them on a quarterly basis.

Similar to the FICA tax that wage earners working for employers pay, the self-employment tax rate for tax year 2018 is 15.3 percent on the individual's first $128,400 of net income and then 2.9 percent on net income beyond that. The rate consists of two parts: 12.4 percent for social security and 2.9 percent for Medicare.

To pay self-employment tax, an individual must have a Social Security number or an individual taxpayer identification number. Schedule SE (Form 1040) can be used to calculate self-employment tax. Self-employed individuals can deduct the employer-equivalent portion (half of the total self-employment tax) in computing their business's adjusted gross income, reducing the business income subject to income tax.

Tips for Staying on Track with Your Self-Employment Tax

Neglecting to pay your taxes can result in fines and penalties, so it is critical to stay current. Talk with an accountant and/or tax professional for assistance in understanding your tax obligations.

Here are some additional tips for consideration:

- Talk with an accountant and/or tax professional for assistance in understanding your tax obligations.
- Check the IRS Calendar for upcoming deadlines (https://www.tax.gov/calendar/), and consider setting up reminders (https://www.tax.gov/calendar/Reminders/), so you are notified of approaching tax deadlines.
- Keep accurate and up-to-date accounting records to help you more accurately calculate your taxes and budget for them.
- Visit the IRS.gov website (https://www.irs.gov/businesses/small-businesses-self-employed) for additional information.

In addition, for guidance on all aspects of starting and running your business, contact SCORE to talk with a mentor. A SCORE mentor can help you navigate the uncharted territory of being self-employed.

Since 1964, SCORE "Mentors to America's Small Business" has helped more than 10 million aspiring entrepreneurs and small business owners through mentoring and business workshops. More than 11,000 volunteer business mentors in over 320 chapters serve their communities through entrepreneur education dedicated to the formation, growth and success of small businesses. For more information about starting or operating a small business, contact SCORE TriCounty. You can call 610.327.2673, email tricounty@scorevolunteer.org or visit the website at www.tricounty.score.org.

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Three Financial Reports Every Small Business Owner Should Understand

After setting financial goals and a budget for your small business, it is crucial to monitor how well your company is performing. Is it on track to achieving its revenue and profitability goals? Is it controlling its costs?

Even if you have contracted the help of an accountant, it is helpful to develop your understanding of your business's financial affairs. One way to accomplish that is to become familiar with and regularly review the following reports.

- Profit and Loss Statement
- Balance Sheet
- Cash Flow Statement

Profit And Loss Statement (P&L)

Also called an "Income Statement," your company's P&L report indicates if your business is profitable and how profitable it is during a given period of time (such as for the past month, past quarter or past year). A P&L statement is made up of the following main sections:

- Total income
- Total expenses
- Net income (Your income minus expenses)

It is helpful to compare recent P&L info with that of a past period of time (such as a month this year with the same month last year) to identify if your company's profitability is improving or if there might be some issues you need to address. For example, if your sales are up but your profits are down, you would want to investigate which costs have increased to the extent that they are harming your bottom line.

Balance Sheet

Your Balance Sheet provides a snapshot report of your company's finances — assets, liabilities and equity — at a given moment in time. It summarizes what your business owns and what it owes. Investors who are considering funding your company will want to see your balance sheet before committing.

Most often, the report shows company assets on the left and liabilities plus equity on the right to represent the following accounting equation: Assets = Liabilities + Owners' Equity

The totals on each side should match, hence the name "Balance" Sheet.

Running this report at any time can give you helpful insight. Most business owners—sometimes with the help of accountants—review it at the end of a month, quarter or year.

Cash Flow Statement

Your Cash Flow Statement sheds light on:

- When cash is flowing into your company
- From where cash is flowing into your company
- When cash is flowing out of your company
- From where cash is flowing out of your company

It lists your incoming and outgoing transactions, showing how your business has earned and spent money over a period of time.

It is valuable because even a business that shows a profit on its P&L statement can run into money problems if its income is not arriving in time to be able to pay employees or to cover bills when they are due. By looking at your Cash Flow Statement, you can detect gaps and start making changes so you will have sufficient cash reserves and avoid shortfalls that could hurt your ability to conduct business and your reputation.

Money Isn't Everything—But Managing It Isn't Optional.

By learning to read and interpret your P&L Statement, Cash Flow Statement and Balance Sheet, you will have a better sense of where you are on your course to meet your financial goals. The accounting software you use probably has these reporting options built into it, or you can ask your bookkeeper or accountant to run the reports for you. You will also find templates to create reports through the SCORE website at https://www.score.org/resource/business-planning-financial-statements-template-gallery.

To gain a better understanding of how to use the reports to manage your business, talk with your accountant and a SCORE mentor.

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