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Little Known
TAX SECRETS
FOR THE
SELF-EMPLOYED



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I am thankful for the taxes that I pay because
it means that I am employed.

~Nancie J. Carmody

LITTLE KNOWN TAX SECRETS FOR THE SELF-EMPLOYED

How would you like to wave goodbye to the mundane nine-to-five and say hello to a liberal schedule and a profitable business? Most people would immediately raise their glasses. But maybe this picture isn't for you. Maybe you enjoy the order and security of having a full-time job, and are simply seeking an additional stream of income.

Whether you're hoping to start a full-fledged business or start a side business to bring in more money while still keeping your day job, taking a turn for self-employment opens financial opportunities that aren't available to most people.

If the fear of being eaten by self-employment taxes is stopping you from turning your pipe dream into a reality, the information in this book will change your views – maybe even your life. Once you discover the tax benefits that are available to the self-employed, your fear will scurry away and your vision of starting your own business can become your reality.

WHAT IT TAKES TO BE SELF-EMPLOYED

To become self-employed, you must have something to sell that will help you turn a profit, whether it's products or services, physical or digital, online or offline. Becoming a self-employed individual requires you to offer something of value to clients and customers.

You can also start a lucrative business by putting up an online blog. Monetization methods include selling advertising space, selling your own or commissioned products, building a list of targeted newsletter subscribers who buy further products from you, and many more ways.

However, before deciding to become self-employed, it's best to discern whether or not self-employment is indeed the right choice for you.

Below, we'll cover three not-so-fun facts of being self-employed. Use this list to help you decide whether you're willing and able to maneuver these situations.

1. Long hours and little money. For the most part, the first few months of your self-employment will require you to put in a lot of time for very little money. This can sometimes be a deterrent if you plan to profit immediately.

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- Maintaining a full-time job in addition to your self-employment can prove to be both a benefit and detriment to your new business. It's beneficial because you have a steady stream of income coming in regardless of the state of your business. Nevertheless, maintaining a full-time job requires you to work 40 hours per week, therefore the startup stage will take longer as you'll be able to invest less time.
 - While it's true that your first few months of self-employment may produce little revenue, if you're committed to working diligently, your business is more likely to succeed. In addition to stamina, a solid business plan, marketing plan, and business idea are necessary components of opening a business. So take the time to plan well.
2. One-man-show. Unless you're willing to shell out the cash to hire administrative staff, you're going to be a one-person-show. This means you'll have to handle the production of items, fulfillment of services, customer service, bookkeeping, collections, and marketing.
- You can utilize online services to help you minimize your time investment. Some services are paid, while others are free. However, shelling out \$20 per month here and there can help you regain valuable time in your schedule you can place towards marketing.
3. Stressful times. In business, there will always be surprises. You may have to deal with return orders due to unsatisfied clients; you may have to deal with shoddy suppliers, shipping emergencies, or even clients that refuse to pay.

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- If you can eloquently get through the stressful times, your business will be able to prosper even through leaner times.
- The way you address the needs of an unsatisfied client can be the determining factor as to whether they decide to do business with you in the future. Many times, if you can turn an unsatisfied client into a happy camper, you've won yourself a lifelong client.

MINIMIZING THE BURDEN

As a solopreneur, your time is the most valuable asset you have. One of your main priorities should be to seek strategies to streamline your business in order to free up your major asset: time.

Generally, most established businesses hire employees or contractors to streamline the inner functions of their business. However, rather than hiring others, you can rely on the next best thing - inexpensive software and services. These costs are also tax deductible!

To save time and money, try these useful online services for budding entrepreneurs:

1. FreshBooks. www.freshbooks.com is an accounting and invoicing program which allows you to track your time spent on any one given project, create professional invoices and also acts as a virtual accounting interface.
 - FreshBooks has four pricing plans. You can get an account for free if you plan to invoice three clients or less per month. Their paid memberships start at \$20 for 25 clients and \$30 for unlimited clients.
2. Email marketing. www.aweber.com allows you to create stylish templates which include your letterhead for email marketing campaigns to your customers or newsletter subscribers. Pricing starts at \$19 per month for up to 500 subscribers.

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3. Facebook Advertising. Nowadays, just about every person has a Facebook page. Therefore, it only makes sense to capitalize on this addictive online social networking experience by advertising on Facebook.
 - By using Facebook advertising, you can target your advertising and set a daily budget. For example, if you'd like to spend \$300 per month, set the daily budget to \$10. Set it to whichever amount you feel comfortable with.
 - Facebook advertising can be very targeted, based on age, location, interests, and more. Ensure you understand your target market so you can tailor your ads to them.

DEDUCTIONS FOR THE SELF-EMPLOYED

Everyone knows that you can deduct the dollars spent on advertising and the cost of materials for your business. However, few people know about the considerable tax deductions that are designated for the self-employed.

These deductions can turn a portion of your normal, every-day expenses, like your rent or mortgage for your home, into tax deductions! You can also deduct a portion of your electric bill, major repairs to your home, like a new roof, or home services, like security and pest control.

You can even deduct your kid's allowance! In addition, you can turn your hobby or entertainment expenses into business tax deductions with a little know-how!

Read on to find out how...

HOME OFFICE TAX DEDUCTIONS

As a self-employed individual, you're entitled to take a home office deduction for the workspace you use within your home. However, your home office area needs to be designated specifically for work related use.

For example, if you utilize your dining room table as your home office and then feed your family dinner on the same table, you're not entitled to the home office deduction for that space.

If you've placed your home office in a spare bedroom or other dedicated space, the IRS deems this as an appropriate workspace to qualify for the deduction.

While having a home office deduction can be a godsend, it also requires some accurate calculations. In order to take the deduction ethically, you'll need to measure the square footage of your home office, and then compare that to the square footage of your home.

If your home office space takes up 10% of your home, you're entitled to writing off 10% of your mortgage or rent payment. If it's 5%, take a 5% deduction. In addition to this deduction, you can also write off the same portion of your utility bills and any maintenance, repair, or service bills that concern your office.

For instance, if your home's air conditioner breaks down and it costs \$5,000 to repair it, you can deduct the designated portion for your office. If your office space

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is 10% of your home, you can deduct \$500 of that \$5,000 repair bill from your income.

The same goes for things like a new roof, flooring, carpeting, or monthly services like security and pest control. Your office's designated portion of these charges can also be deducted from your income.

An easy way to keep track of all this is to use the services of an accountant. Just give him the measurement of your home office space, the total square footage of your home, and your monthly paid bills, including repair and maintenance expenses for your home.

TAX-DEDUCTIBLE HOME OFFICE EXPENSES

In addition to receiving a tax deduction for the portion of your home expenses that applies to your home office, these expenses for your home office are also tax deductible:

1. Phone. In order to write off your phone expenses, you'll need to separate your home line from your business line. If you're seeking a landline phone, you can score a deal for about \$30 per month. However, you can also get a second line for your cell phone in order to offer you more flexibility as to when and where you take business calls.
 - An affordable alternative to a landline phone would be MagicJack. It costs \$40 for the initial purchase of the device. And the recurring costs are \$19.95 per year thereafter. MagicJack operates under VOIP (Voice over Internet Protocol); therefore you need to plug it into a computer in order to turn on the reception for your phone.
 - If you need more mobility, most cell phone companies allow you to add an additional line to your account for as little as \$10 per month and you can share the minutes given on your primary line.
2. Internet. Whether you work strictly from home or work on your business from home during your spare time, it's highly unlikely that 100% of your internet

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use is strictly for work related purposes. Therefore, you won't be able to deduct your internet bill in its entirety.

- Deduct your internet charges according to the percentage of its usage that is dedicated to your business use.

3. Home office furniture and equipment. You can also take deductions for your home office furniture and equipment designated for business use:

- Desks, chairs, and other furniture
- Filing cabinets
- Computers and monitors
- Laptops
- Printers
- Fax machines
- Software you need for your business

4. Maintenance and repairs. Any maintenance and repairs strictly for your home office, such as new carpet or paint in the office space, is 100% tax deductible for your business.

5. Your child's allowance. Pay your children for keeping the home office tidy. Even a small child can dust the desk and computer! It encourages responsibility in children and you get a tax deduction for what you pay them.

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- Let older children help you keep your files, papers, and receipts organized. They can even enter your daily income and expenses into your bookkeeping software.
- If your child is under age 17, you can employ them without paying social security on their wages.

TRAVEL EXPENSES

When traveling for business related purposes, the majority of your expenses are deductible. Costs ranging from your plane ticket, a portion of your meals, lodging and even entertainment are tax deductible.

Take your tax deduction for these business-related travel expenses:

1. Transportation. The cost of your airfare, train ticket, bus ticket, or whatever means of transportation that is necessary in order to reach your destination is tax deductible.
 - Even though you can fly first class, only purchase the class you can afford. Remember, you may be receiving a deduction for the expense, but you're still footing the bill yourself.
 - If traveling in your car, you can deduct the amount spent on gas or add the miles to your business mileage expense. If traveling in a rental car, you can deduct the amount spent on the rental, plus the gas as well. Furthermore, the miles you drive within the city you're traveling to are also attributable to your deductible expenses.
2. Lodging. Your hotel stays are tax deductible. However, this deduction only applies if you're traveling without your family, as only then does it truly apply as business travel.

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- Many hotels charge an additional fee for WIFI connection. If you must access the internet for any business reasons, you're entitled to deduct the fees you incur for WIFI connectivity.
3. Meals and entertainment. While your other travel expenses are 100% tax deductible, only 50% of your meals and entertainment expenses are deductible.
- You can take your clients out for dinner and drinks or for entertainment activities, such as golfing or a trip to the opera. Keep a business calendar with the name of the client and the business discussed for your records.

If you must use your car in order to operate your business, even in your own city, you can deduct travel expenses. Trips such as driving to meet with clients, picking up supplies, trips to the post office to ship orders and travel to networking events all classify as business use. A percentage of maintenance expenses, such as oil changes, tire rotation, car insurance and gas are indeed deductible.

It's important to keep receipts for your travel expenses. In doing so, you'll be able to verify your claims in the case of an audit. Flamboyant spending on business travel or driving your car excessive miles for business may trigger an audit, as many people either misuse or outright abuse the deduction.

HEALTH INSURANCE PREMIUMS

Employees pay heavily for the privilege of health insurance. However, self-employed individuals gain the upper hand when it comes to this necessary expense.

Health Insurance Premiums

Self-employed individuals can deduct their insurance premiums, as those who are self-employed have no way to insure themselves other than paying for it completely out-of-pocket. However, in order to qualify for this deduction, you truly must not have access to other forms of health insurance.

This means that if you're able to qualify for insurance under your spouse's employer, you don't qualify for this deduction.

Another perk of this already sweet deduction is that you can also deduct the premiums for insuring your family.

MAXIMIZING YOUR TAX DEDUCTIONS

With some creativity and business sense, you can find business reasons for many of the other expenses in your life, including expenses for your hobbies and entertainment. And when the expense is for your business, it's deductible!

Try these strategies to get the most you can from your tax deductions:

1. Turn regular expenses into business expenses. To make virtually all your mileage tax deductible, perform a business activity every time you drive your car.
 - If driving to your regular job, make contacts or pass out business cards at places near your workplace.
 - Schedule errands for your business wherever you're normally going and write it down on your business calendar.
 - Not only will your business benefit from the extra promotion, but your auto expense tax deduction will rise significantly.

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2. Turn fun expenses into business expenses. There are many ways you can turn your hobby or other enjoyable activities into legitimate, deductible business expenses:
 - If you like to go out to eat at fine restaurants, put up a food critic blog and deduct your dining expenses as well as the transportation expenses to the restaurant.
 - If you like to travel, start a travel blog on ways to save money traveling or provide destination details on the best places to visit in each city. Deduct your travel expenses as a necessary part of your business. Your camera and photography expenses also become tax deductible when they're used in your business!
 - If you enjoy boating, fishing, golfing, hunting, opera, theater, or other activities, bring a client with you and deduct 50% of the expenses.
 - If arts or crafts are your forte, sell some of the beautiful things you make on eBay.com or Etsy.com and then deduct the money you spend on your craft as supplies for your business. In addition, your hobby space or workshop can be included in your home office space.
 - The key to making the expenses for your hobby or other enjoyable activities tax deductible is to find a way to make money from the activity. Then you can savor both the profits and the tax deductions!

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3. Get an accountant. Your accountant can advise you on many tax deductions you may not know of otherwise and complete your tax forms in the most beneficial way for your situation.
 - Your accountant, especially if they're an experienced CPA, is well versed on keeping your tax deductions within normal parameters for your specific business so that you don't raise any red flags at the IRS for excessive expenses.
 - They can also advise you on further tax-saving strategies, including your business' structure, investments, and retirement accounts available for self-employed people.
 - Accountants are well worth their fees. The additional tax savings you can acquire by using an accountant are far more than what they charge you for their advice!
 - Plus, you can also deduct the fees that you pay your accountant!

The tax deductions listed in this book are the most common deductions you can take advantage of when you become self-employed by adding a business of your own to your repertoire. However, these deductions are just the beginning!

The current tax laws give you many opportunities to save money on your taxes when you're self-employed. You can take advantage of these favorable conditions

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to start that business you've always dreamed about or turn your hobby into a lucrative business.

Even though it may be hard work, the benefits of getting to do what you've always wanted, along with the tax deductions, can make it possible for you to enjoy the lifestyle you deserve!

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