

Rhode Island

Small Business Development Center



SERIES ON FINANCIAL LITERACY Tax Literacy for Small Business

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WE need input from as many as possible. Speak up!



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WHAT DOES IT TAKE TO BE BUSINESS TAX LITERATE?

- **A LITTLE KNOWLEDGE**
- **THE ABILITY TO KNOW WHEN YOU’RE OVER YOUR HEAD AND NEED A TAX ACCOUNTANT OR ENROLLED AGENT.**

I’LL TRY TO GIVE YOU SOME KNOWLEDGE OR REINFORCE WHAT YOU ALREADY KNOW

- **TAX TIP 1 - if you feel unsure about taxes FIND A GOOD TAX ACCOUNTANT AND BOOKKEEPER AND HAVE THEM WORK WITH YOU IN TAX**

PLANNING AND TAX COMPLIANCE.

Disclaimer: THIS SHORT DISCUSSION DOES NOT TAKE THE PLACE OF TAX AND LEGAL PROFESSIONALS

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- **TAX TIP 2 - IF YOU HAVEN'T FOUND AN ACCOUNTANT AND YOU NEED ONE AND IT'S APRIL 14 - DON'T PANIC - GOOGLE , "HOW TO FILE A 1040 AUTOMATIC EXTENSION FORM", AND FILE ONE. IF YOU HAVE A TAX PACKAGE LIKE TURBO TAX OR TAX CUT, IT'S RIGHT THERE, EASY TO DO. THERE IS NO NEED TO GET A PENALTY FOR LATE FILING.**

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Intro - Setting the stage

- Governments tax to have the money to provide goods and services such as highways, military, police, IRS, and so much more.
- The total federal, state and local spending equals about 1/3rd of GDP and they raise that from the other 2/3 or there is a deficit. Individuals and businesses pay in taxes and fees.
The US GDP for 2021 was around \$23Trillion \$23,000,000,000,000

Q: How do you know you've got a good tax accountant?

A: She's had a loophole named after her.

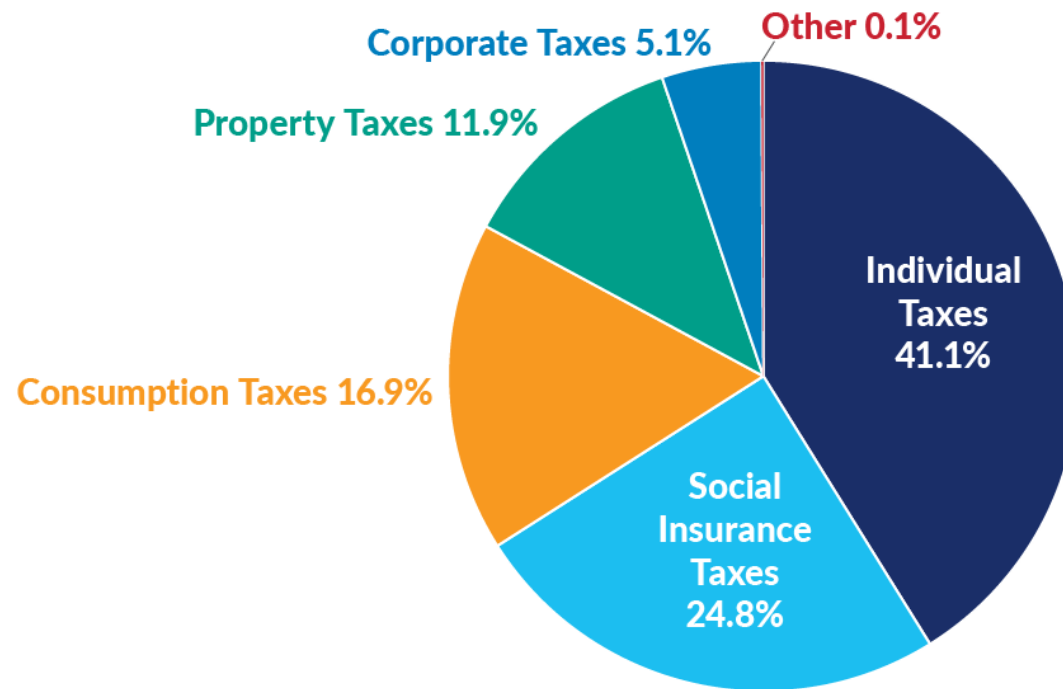


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Individual Taxes Are the Most Important Tax Revenue Source for the United States

Sources of Tax Revenue in the United States, 2020



Source: OECD, Revenue Statistics- OECD Countries: Comparative Tables."

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- **Small business income, usually passed through to the owners and included on their personal 1040 and equivalent state tax form.**
- **If the small business is what's called a C Corporation, a choice they can make, the business is taxed at 21%, and if they pass the income to the owners as dividends they are taxed again. So normally only larger more profitable businesses do this.**
 - **Also they can pass income through salary which is tax deductible by the corporation and taxed to the owner at personal rates, but only taxed once**
 - **Or they can pass it by selling the business or passing it to their heirs.**



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Income Tax rules depend of the legal form of the business

The major legal forms of a business are:

- Sole Proprietorship and Partnerships
- LLC or LLPs
- C Corporations and S Corporations

I'm thinking of quitting my job as an accountant
The work is just too taxing.



- Sole proprietorship – good for small businesses and for RI state tax for business losing or barely making a profit.
 - **Small sole proprietorships can do tax return using a package such as Turbo Tax, Tax Cut or several others. They use AI to guide owner - if problems arise offer on line help. They are reasonably priced**
 - If not confident doing the return yourself, especially if the business is complex, work with an accountant or enrolled agent. They normally charge by the hour so the more complicated the business the higher the fee.

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Tax tip 3

There is a special benefit to owning a business. For most businesses the owner gets a tax deduction for 20% of the businesses net income. There are income limitations (joint income under \$329,800) and a few others requirements, but most small businesses get the deduction. Tax software or your tax professional will guide you with deductions as will

IRS pub 535 Business Expenses

Auto mileage for 2022 \$.585

<https://www.irs.gov/pub/irs-pdf/p535.pdf>

I wish I got this!



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**How does a pirate report
treasure on his taxes?**



ON A SCHEDULE SEA!



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- **Second most common form of business is the LLC/LLP limited liability corporation and partnership. This is acquired from the state. Usually use a lawyer, but can do it yourself.**
- The sole person LLC for federal tax purposes is treated as a proprietorship and does not file a corporate tax return or pay corporate tax
 - but in RI there is a minimum corporate tax of \$400 that must be paid to the state by the LLC regardless of income or loss. So in RI they tax the business even if it has a loss – so unfair- but they say they need the \$\$\$

Tax Tip 4 – If you have an LLC and you go out business you immediately need to delist it, close it with the state. You'll probably need a lawyer. If you don't officially close the business the State will bill you \$400 a year plus fines and late fees until you legally delist and close it.

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- Is Legal Zoom a good way to get a Corporation chartered? Forbes 3/25/2020 says Legal Zoom gets pretty good reviews. It cost from \$79 to \$349. Many attorneys charge around \$500 maybe more, but this is a good way to develop a relationship with an attorney.

Anyone want to discuss their experience?



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- An LLC can choose to be taxed as a corporation, called C Corp, at the corporate tax rate. A business can also be Incorporated as a C Corp, often a must for business needing many owners.

Corporate tax rate 21% Maximum personal rate 37%

- **There is also a S Corporation for certain situations. Usually need a professional to help decide form of corporation**



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Regardless of the size of the business or legal form there a number of universal tax tips many of which are also tips for sound business practices

Tip 5 Keep Books, Records and Back up clean, complete and well organized, with a clear audit trail.

-When you first start spending money to open your business, start a business checking account and apply for a credit card. Use these for all business expenses. Maintain the backup documents for each check or credit card entry and denote what it was spent for.

At the very least save all business receipts and write down what it's for - there are some good aps to help with this .

Where do homeless accountants live? In tax shelters!

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Tip 6 for Income Tax - Take advantage of the 179 deduction where a business can expense purchase of equipment and other long lived assets, rather than depreciate them. It can't be deducted if the business has a loss.

This gives the business a big deduction and less tax in the current period. In effect the business owner gets a tax free loan from the IRS. This deduction is available up to \$1 million, most assets qualify. You need to check on the particular item you plan to buy.

Tip 6a - Be careful with deducting a home office – the space has to be used only for the office. TaxCut or Tubotax will guide you and details are in IRS Publication 535

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Let's switch it up and talk Sales Tax

You might be a tax accountant if ...
... you refer to your child as Deduction 214.



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Sale Tax Literacy –

All but 5 states have sales tax: RI is not one of the 5.

Sales tax is not a business expense. It is a pass through in that a business collects it from customers and passes it through to the state division of taxation.

Sales Tip 7: before you start a new Business go to the RI Secretary of State's Office and follow the guidance for registering a new business. Once registered go to the Division of Taxation web site and see if you need to collect sales tax. If so get a Sales Tax Permit. Do this before your first dollar sale. Then file the monthly tax forms and remit the tax. If sales are low you can file a form to pay quarterly.

<https://www.sos.ri.gov/divisions/business-services/ri-business/start-your-rhode-island-business>
[Business Registration - State of Rhode Island \(ri.gov\)](#)

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Sale Tax Literacy Tip 8 – Review the Frequently asked questions about sales tax from the RI Division web site

<https://tax.ri.gov/tax-sections/sales-excise-taxes/sales-use-tax>

TaxJar.com is a good source for sales tax information and assistance

Sale Tax Literacy Tip 9 – If you have locations outside RI where you make sales you will need to file sales tax reports in those states. Same goes if you make online sales from RI to other states where you have operations or personnel or where they require you to file. Most online software will help with this. There is a streamlined process many states including RI USE

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[What is a CSP \(streamlinedsalestax.org\)](http://streamlinedsalestax.org)

The following providers are certified by the Streamlined Sales Tax Governing Board. These companies have products that help record, compute and file sales tax returns for online sellers. You will probably need an accountant or bookkeeper experienced with online sales and marketplaces to help.

[Avalara](#)

[TaxCloud](#)

[Sovos](#)

[Accurate Tax](#)

<https://taxify.co/>

Exactor (a subsidiary of Intuit and integrated with Quickbooks)

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What I believe makes a company successful:

- **Good people**
- **Good products**
- **Good purchasing/manufacturing**
- **Good distribution (location/website)**
- **Good marketing**
- **Good customer service**
- **Good strategy and management to implement it**

These need to be supported by good planning and processes such as finance, HR, IT.

Tax literacy is part of finance. Being literate won't insure success but being illiterate could make the business fail

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Thank you for attending

May your taxes be low and success and happiness high!

Peace, health, and prosperity

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