



Freelancers Forum – Saving Taxes©

*By Margaret Hung
MLW Consulting LLC*

Saving Taxes©

- Decrease overhead cost and increase bottom line (*not how much you make but how much you can keep*)
- Will NOT include topics covered by other speakers -- *home office, Sec 179, bonus depreciation, QBID...*
- Startup costs
- Car expenses
- Solo 401K/SEP
- IRA – Traditional/ROTH
- Non taxable fringe benefits
- Miscellaneous

Startup Costs (SC)

- ▶ Expenses incurred during the process of creating a new **business**. All **businesses** are different, so they may have different types of **startup costs**.
- ▶ Creating an entity
- ▶ Developing a Business Plan
- ▶ Internet-related – website, domain names
- ▶ Research cost

💡 *Can claim \$5000 at one time and remaining over 15 years – IF total SC is not over \$50,000*

Car Expenses

- ▶ Actual expense (AE) vs. standard mileage
- ▶ AE – depreciation, gas, insurance, repair, maintenance, lic...
- ▶ More record keeping for claiming AE
- ▶ Standard Mileage – number of business miles
- ▶ 2019 mileage rate is 58 cents per mile (*up from 54.5 cents*)
- ▶ If you start off with Std Mileage (1st year) and change to claiming Actual expense (2nd yr). Switching back (3rd yr) to std mileage rate, the tax basis of the car has to be reduced by the std mileage deduction

💡 *Regardless of which method to use, keep good rec of total mileage of the year and total business mileage. Use an app to track mileage.*

Solo 401K/Simplified Employee Pension Plan (SEP)

- ▶ Solo 401K used to be for S Corp/C Corp but now is gaining popularity for sole proprietors
- ▶ SEP IRA is for sole proprietor, 1-person LLC, partnership
- ▶ Company contribution (for S/C Corp) up to 25% of Gross Wages
- ▶ For sole proprietor – up to 20% of net earnings
- ▶ Individual contribution for 401K – \$19K/\$25K
- ▶ Contribution limit – \$56K – ALL retirement contributions by employee and employer

Solo 401K/SEP, cont'd

- ▶ Company pays FICA on personal contribution (\$19K)
- ▶ Company contribution and admin costs are deductible expenses by Company
- ▶ Deadline – tax filing date (with extension)
- ▶ Cannot discriminate – offering to all qualified employees

 *You still can contribute to IRA with solo 401K/SEP if qualified*

Traditional IRA & ROTH IRA

- ▶ Must have “earned” income
- ▶ Contribution limit - \$6000/\$7000
- ▶ IRA – contribute up to 70 ½ years old; ROTH IRA – no age limit
- ▶ Penalty of 6% for excess contribution
- ▶ RMD (required minimum distribution) for traditional IRA (& 401K); No RMD for ROTH IRA
- ▶ Income limit – IRA – MAGI – *Single/HH \$122K-\$137K/\$64K-\$74K ; MFJ \$193K-\$203K/\$103K-\$123K*
- ▶ Income limit – ROTH IRA – *Single \$122K-\$137K; MFJ \$193K-\$203K*

💡 *Backdoor ROTH IRA - converting non deductible traditional IRA to ROTH with no income limit; fill out form 8606*

Non Taxable Fringe Benefits

- ▶ Insurance – Health, Accidental, LTC, Disability, Life (*up to \$50K*)
- ▶ HSA (Health Saving Account) – \$3500 (S), \$7000 for Family
- ▶ Dependent Care – up to \$5000
- ▶ Educational – up to \$5250
- ▶ Adoption – not more than \$14,080 in 2019
- ▶ Establish Sec 105 Medical Reimbursement Plan and hire Spouse as employee (*sole proprietor/1-person LLC; plan to specify a cap*)

💡 *For Health insurance premium paid by an S Corp for a 2% + owner, the payment is to be included as Wages but owner can deduct that as an adjustment on personal return if requirements are met*

Additional Tax Saving Strategies

- ▶ Hire family members – no FICA and FUTA taxes (*sole proprietor/1-person LLC*)
- ▶ Sect 45S Employer Credit for Paid Family/Medical Leave (*up to 12 weeks/year; min 12.5% & max 25% of wages paid on leave; reduction for wages; not available after 12/31/2019; not more than \$72K in wages...*)
- ▶ Mixing Business with Pleasure – adding vacation time to your business trips – *beware of the pitfalls*
- ▶ Business Gift Rule – up to \$25 per client/year – Full deduction can be claimed on gifts for marketing, e.g., promo items with company's name

Miscellaneous Tips

Websites for questions, advice, guidance, connections...

- Internet Forums – [Small Business Forum.org/.net](http://SmallBusinessForum.org/.net)
- Meetups
- SCORE – free business mentoring services to small biz with volunteers of active/retired biz execs and entrepreneurs
- Small Business Expo
- Blogs – Small Biz Club, Business Banter...

Tool/Software – QuickBook, Sage 50 Accounting (Peachtree), Excel

Miscellaneous Tips, cont'd

- ▶ Apps for tracking mileage – MileIQ, DriveDollar
- ▶ Apps for bookkeeping – Expensify, Soho Expense, Google Lens, Smart Receipts, Evernote
- ▶ Websites – for taxes
 - ❖ irs.gov
 - ❖ <https://ttlc.intuit.com/>
 - ❖ <https://www.hrblock.com/tax-center/>
 - ❖ Websites of pros – CPA, accountants e.g., PICPA



Contact Information

Margaret Hung, EA
MLW Consulting LLC
mh34102@msn.com
919-423-1928