

Module 3.1: Introduction to Business Taxes

In the first pillar of building a solid business foundation, we discussed how to protect your personal assets by knowing how to create the legal format for your business with a Limited Liability Company or a Corporation, along with the pros and cons of each.

In the second pillar of building a solid business foundation, we discussed all of the things you have to take into consideration when keeping track of income and expenses that your business incurs, so that you don't lose any deductible expenses that could reduce your profits.

In our third pillar of building a solid business foundation, we are going to combine what you have learned so far to see how they affect the amount you have to pay to the taxing authorities. Even if you decide to hire someone to do your taxes, they can only do a good job for you if they have the proper format and paperwork. And as I've said before, not all tax preparers are created equal. Knowing this information will let you properly interview one so you don't hand more of your hard earned profits to the government than you are legally required to.

In Module 3.2, we will be discussing how Sole Proprietors and single-member LLCs are taxed and the documentation required. We will also discuss the subject of estimated tax payments and how to determine how to figure the proper amounts.

In Module 3.3, we will be discussing the difference between the standard mileage deduction and the standard expenses deduction and the documentation you will need to keep for each. We will also discuss how the various legal formats affect which one(s) you can use.

In Module 3.4, we will tackle the subject of basis and how it affects how much loss you can take or carry over. The IRS has a whole set of complex rules about this, but I hope to put it into simpler terms so you understand how it affects you. Basis has to be maintained for both Partnerships and S-Corporations and the IRS is cracking down on people abusing the loss rules by not keeping track of their basis.

Module 3.5, we move on to discussing how Partnerships are taxed depending on whether you are a general or limited partner and the documentation required. We will also touch on how the type of partner determines the amount of estimated tax payments you need to make.

In Module 3.6, we move on to depreciation. This is a subject, that if used properly, can save your business a lot of money in the short or long term. It is also a subject that a lot of tax preparers and CPAs do not fully understand and just let the software 'do its thing'. I'll show you why this needs to be a yearly conversation with your tax preparer.

In Module 3.7, we will briefly go over taxation for C corporations. I'll just be reviewing the basics in this section, since very few small businesses use this legal format. But if you plan on bringing in

investors, then you should have a working knowledge so you can hire the right people to help you.

In Module 3.8, we will discuss the very important subject of S corporations, the documentation you need, and the mistakes people often make. It is probably one of the last tax havens left and you need to seriously consider it - or elect to be taxed as one

In Module 3.9, we will discuss that regardless of the legal format you chose, at the federal level you can be chose to be taxed as a different entity. For instance, you may have formed a partnership at the state level because of its flexibility, but can choose to be taxed as an S corporation at the federal level to take advantage of the tax breaks. Most people aren't aware you can do this.

In Module 3.10, we will conclude our tax discussions with a brief overview of the state obligations involving business returns.

By the end of this section, you should be able to understand how all three pillars of your business lock together to build a solid foundation under your business. They will protect your profits from personal liability, protect your profits by allowing you to know your profitability at any time, and protect your profits for excess taxation.

And when you are in total control of your business, you will be able to make better decisions, have more confidence and people will notice. You will become the type of business that people feel confident doing business with.