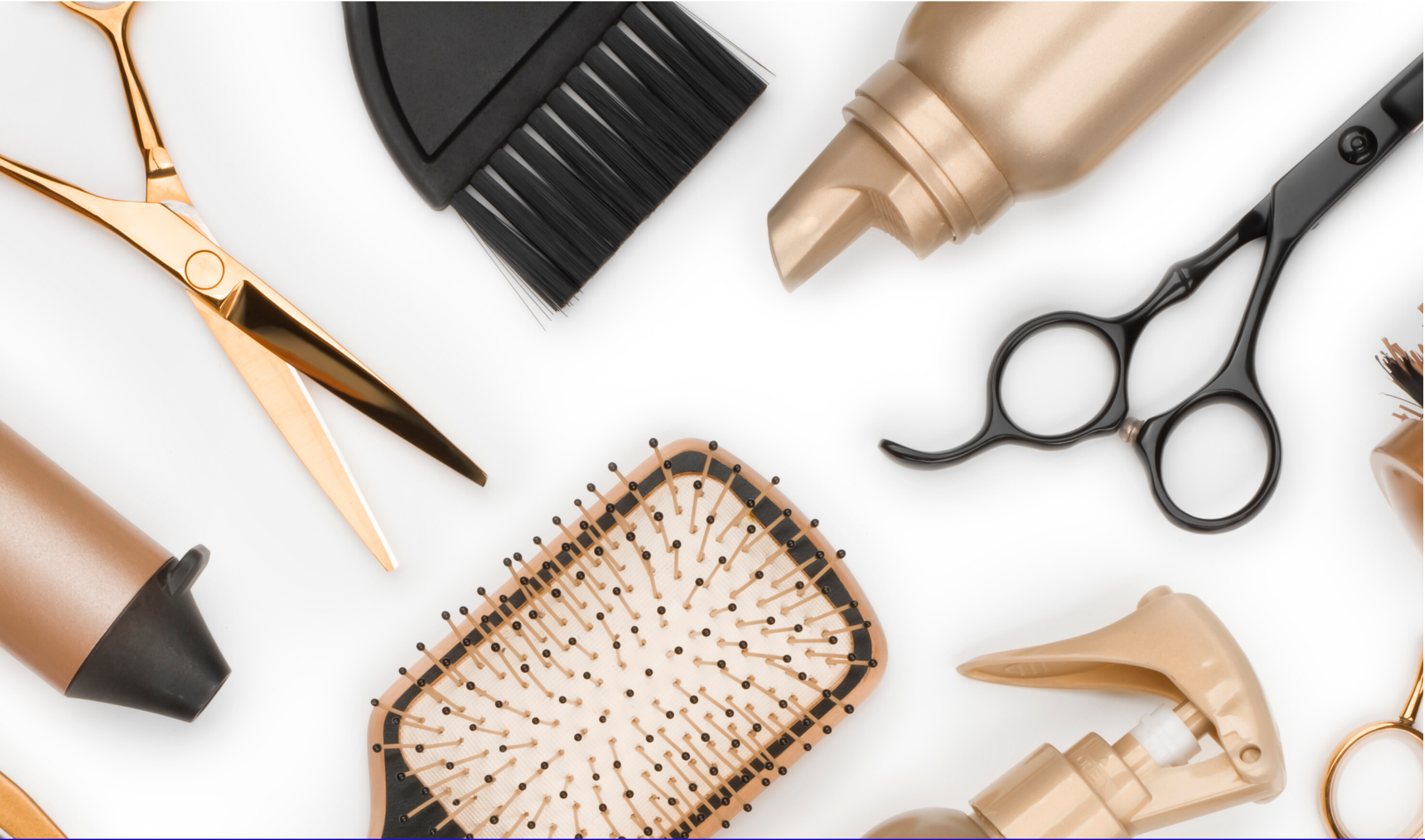


ColemanTax
EXPERIENCE MORE.

Can I Deduct This!

The Ultimate Tax Deductions Guide for Beautypreneurs

by Kenesha Coleman, "the Beauty CPA"

Hi! I'm Kenesha Coleman...

and I am the owner of ColemanTax, a full service Tax firm that helps Beauty Entrepreneurs save money by reducing their taxes.

ColemanTax offers the following tax services:

- *Tax Planning*
- *Tax Compliance*
- *Tax Controversy/Issue Resolution*
- *Accounting*
- *Bookkeeping*

My mission is to use my tax technical expertise and experience gained from working as a Revenue Agent for the IRS, in public accounting and a Fortune 150 Corporate Tax department to maximizing your tax savings.

I am an expert tax professional with 12 years of federal and multi-state tax experience. I have hands-on experience with individual taxation as well as a variety of business entity types.

I am an active CPA, IRS Enrolled Agent and a Certified Tax Coach (CTC).

"*My goal is to have you pay the least amount of taxes legally possible!*"

WHAT IS A TAX DEDUCTION?

A tax deduction is a business expense that is subtracted from your total business income.

A tax write-off is another term for a tax deduction. The two terms are used interchangeably.

In general, a business expense is money that you spend on things to run and maintain your business. Most of the money that you spend on things to run and maintain your business can be tax deductions.

Business income is money that you receive from the sale of your business' services and/or products. You will subtract your business expenses (tax deductions) from your business income. What's left over is your net profit and your taxable income.

A tax deduction, also called an allowable business expense, is what you can deduct, not necessarily what you spent. Some business expenses are only partially deductible. For example, you can spend $150 on meals, but only $75 is a tax deduction because only half the expense is allowed by tax law.

There are also totally legitimate business expenses that are not deductible at all. For example, expenses for entertaining current and prospective clients/customers are no longer tax-deductible.

WHY ARE TAX DEDUCTIONS IMPORTANT?

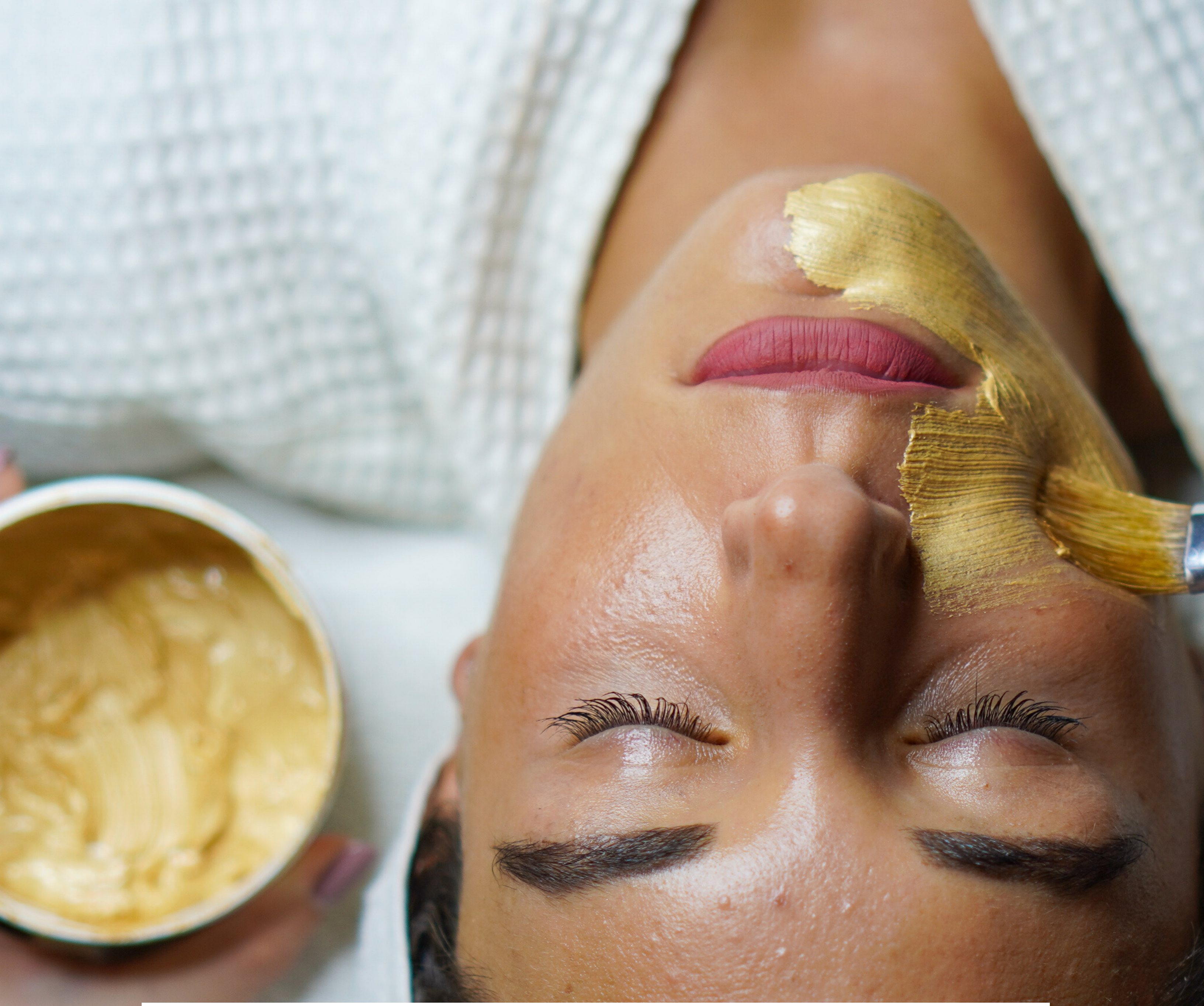
Tax deductions are important because they save you money!

Every tax deduction you find will save you money on your federal income taxes, on your state income taxes, on your self-employment taxes, on local income taxes, and on any other business taxes based on your net profit.

You owe it to yourself to find every tax deduction you can.

You have to find these deductions yourself. You are the only person who knows the ins and outs of your own business.

You cannot rely 100% on your bookkeeper, accountant, CPA, or attorney. The tax professional can't possibly take the time to ask you about every possible deduction you didn't know about or failed to include in your accounting records.



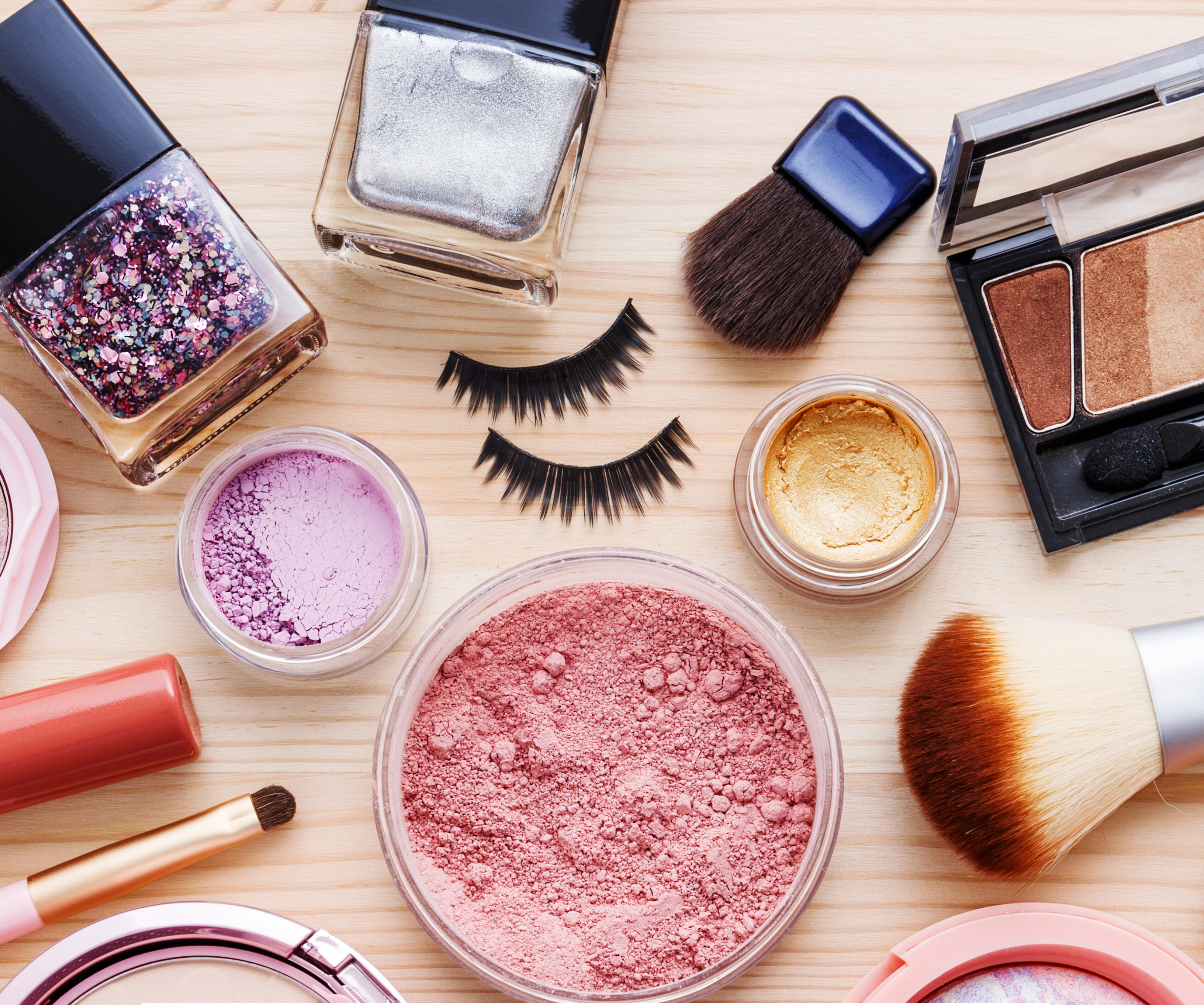
HOW CAN TAX DEDUCTIONS LOWER YOUR TAX BILL AND SAVE YOU MONEY?

You figure your tax liability based on your taxable income.

A tax deduction reduces the taxable income from your business.

You compute your business' taxable income by taking your total income and subtracting your tax deductions.

The tax savings from a tax deduction will equal the tax deduction times your tax rate.



TAX DEDUCTION VS. TAX CREDIT?

A tax deduction reduces the taxable income from your business.

A tax credit does not reduce your taxable income, but it does reduce your income taxes.

The difference is quite important. A tax credit is much more valuable than a tax deduction.

A tax deduction of $1,000 might save you $300 in taxes, if you are in a 30% tax bracket.

A tax credit of $1,000 will save you $1,000 in taxes!

HOW TO KNOW IF AN EXPENSE IS TAX-DEDUCTIBLE

The majority of business expenses are not specifically mentioned in the IRS tax law books.

For example, you will not specifically see that you can or cannot deduct the costs for curling irons.

However, the IRS does say this: “There shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business.”

But what does this mean?

In general, the IRS states that business expenses must meet the following four rules in order to be tax-deductible:

- The expense must be connected to your business.
- The expense must be “ordinary”.
- The expense must be “necessary”.
- The expense must not be “lavish” or “extravagant”, under the circumstances.

Any expense that does not meet all four of these requirements cannot be deducted on your business tax return.

1 Business Related

The expenses incurred must be in connection with your business; the business you carry on regularly with the intent to make a profit.

The business you carry on must be engaged in on a regular basis. This rules out occasional activities that you may dibble and dabble in.

Occasional activities are not considered a business by the IRS. Part-time, seasonal, and pop-up businesses qualify if they are an ongoing activity.

Also, the business you carry on regularly should have an intent to make a profit. The “intent to make a profit” requirement rules out hobbies and other activities done mostly for fun. There needs to be a real profit motive or the IRS says it is not a business.

Please note that the requirement that the business expense is related to your business also means that you must actually be in business before you are allowed to write-off business expenses. You are not allowed a deduction for business expenses incurred in connection with a business you are thinking about starting, planning to start someday, or researching in anticipation of starting - until you have actually started the business and opened your doors.

At that point, some of the pre-opening expenses can be deducted (start-up for sole proprietorships and organization costs for corporations).

Expenditures that are both personal and business (like a cell phone) can be deductible but the cost must be prorated and only the portion applicable to business use is deductible.

2 Ordinary

The expense must be “ordinary”. An ordinary expense is one that is common or accepted in your type of business and industry.

3 Necessary

The expense must be “necessary”. A necessary expense is one that is appropriate and helpful in developing and maintaining your business. "Necessary" in a tax context does not have the same literal meaning that we associate with the word "necessary". When we use the word "necessary", we mean essential, indispensable, or must be done. An expense only has to be “appropriate and helpful” to pass the necessary test. An important part of the necessary test is whether there is a good business reason to claim the deduction.

4 Not Lavish or Extravagant

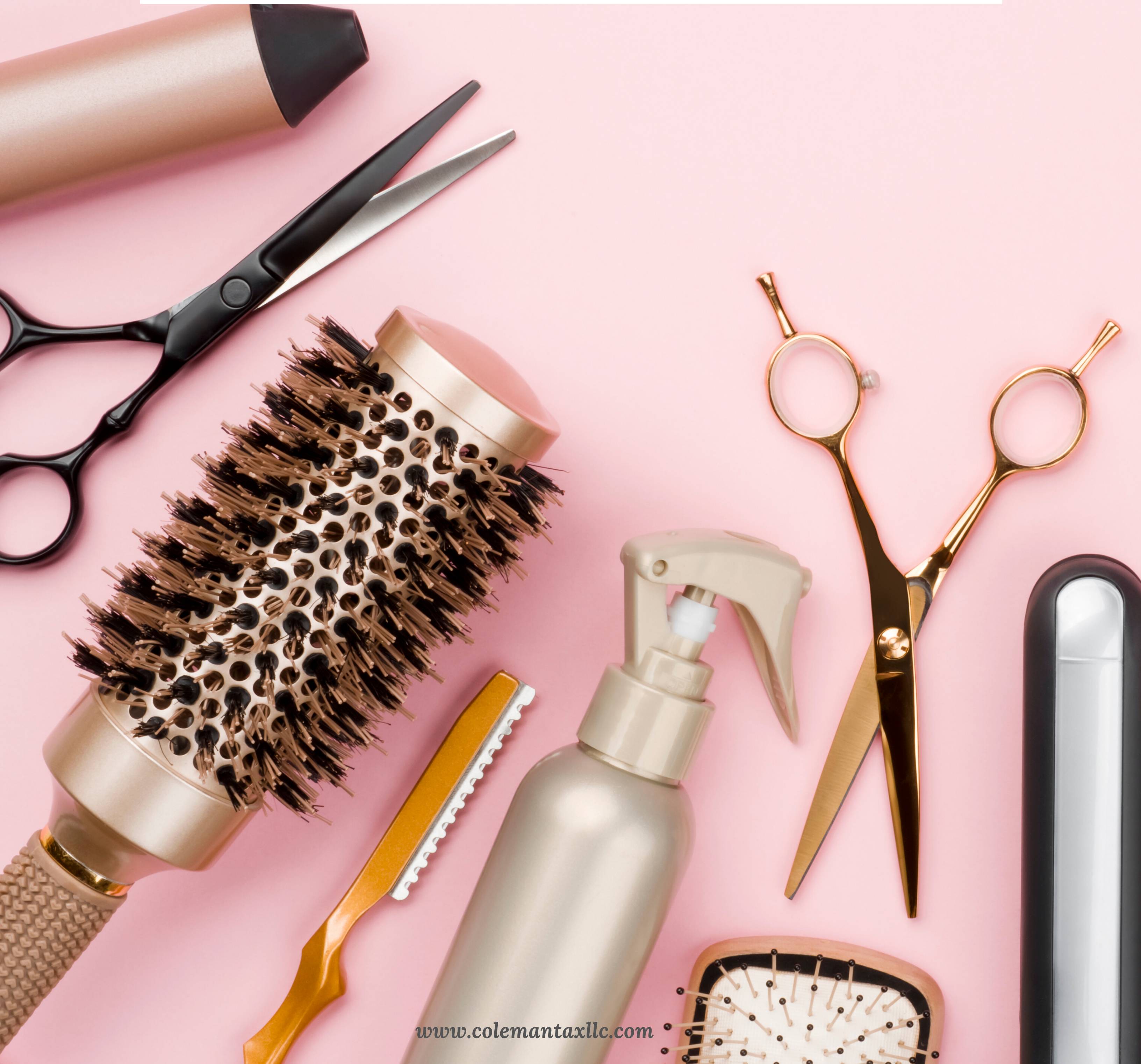
The expense must not be “lavish” or “extravagant”. Defining these two terms depends on the circumstances. The bigger the business and the more income the business earns, the more likely you can deduct large amounts of money and call the expenses “not lavish or extravagant” under the circumstances. Full-time, ongoing businesses can usually get away with more lavishness than part-time and new businesses.

EXPENSE DEDUCTIBILITY - PERSONAL VS. BUSINESS

A personal expense is a non-business expense. It is not deductible on a business tax return.

Expenses that are partly personal and partly business need to be prorated.

The business portion is deductible.



PAYING FOR YOUR BUSINESS EXPENSES

It is always great business practice to have a separate business bank account for your business and to pay for your business expenses from the business bank account.

However, if you are an un-incorporated business (a sole-proprietorship, a one-person LLC, a joint venture) it does not matter whether you or your business pay the bills. If an expense is a business expense, your business will get the tax deduction. You can make business purchases on a personal credit card or debit card and get a business deduction. The card does not have to be in the business name. You can write a check on your personal bank account for business-related purchases and deduct them as business expenses. Your business vehicle does not need to be registered in the business name. A building or other business location that you own or rent does not have to be in the business name. You still get the deduction.

The tax laws are different for S-Corporations, C-Corporations, Partnerships, and Multi-Member LLCs. Business expenses can be disallowed when claimed by the owners of the business instead of by the company itself. Try not to pay for business expenses out of your personal funds.

If you do pay for any business expenses out of your personal funds, have the company reimburse you so that the business itself can claim the deduction.

CAPTURING YOUR BUSINESS EXPENSES

Many tax deductions are lost because people don't know about them. But many tax deductions are lost simply because people failed to record them.

When you don't record keep good records, you cheat yourself out of deductions because you didn't write them down.

Recordkeeping is the very heart of taking advantage of tax deductions. If you don't have a good set of financial records, set-up a spreadsheet, accounting software or smartphone app, and learn how to use it to track your business income and expenses.

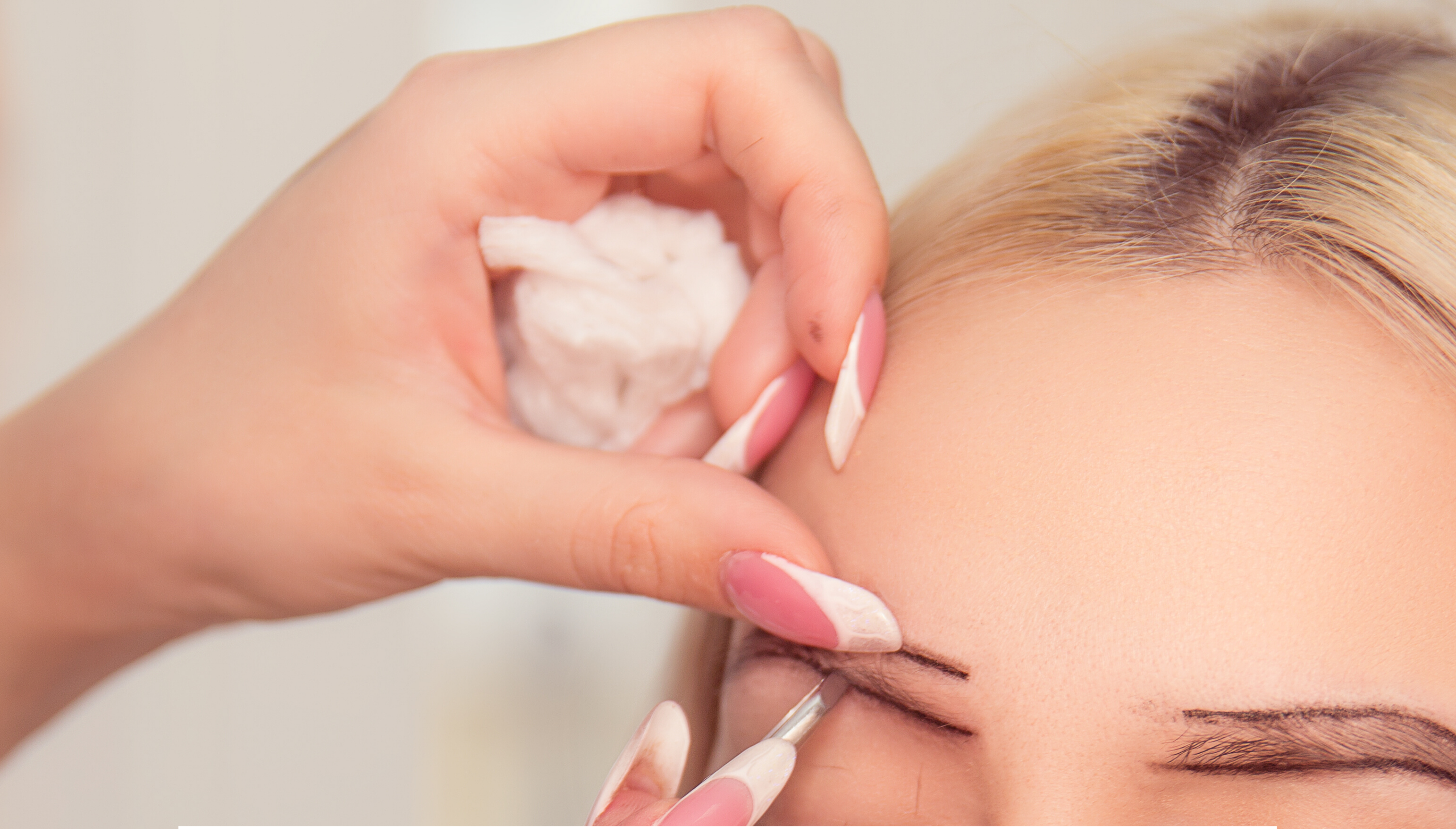
Keep receipts for everything!

Set-up a good filing system and keep them for at least three years.

Receipts are the best proof in the case the IRS ever challenges a deduction.

If you don't have receipts, make notes about your expenses or keep a business diary.

Don't forget to track mileage and all those tiny out-of-pocket expenses; even small expenses can add up to large tax deductions!



WHEN TO TAKE YOUR BUSINESS EXPENSE AS A TAX DEDUCTION

In general, most tax deductions are taken the year you incur the expense.

Part of understanding when an expense can be deducted requires you to know the basics about the two accounting methods allowed by the IRS: the cash method and the accrual method.

Any business with annual sales of less than $25 million can choose either the cash method or accrual method. Almost all small businesses choose the cash method because it is easier to understand and requires much simpler recordkeeping.

Under the cash method, expenses are recorded when paid. Purchases you made but not yet paid for are not recorded in your expense records and are not deducted on your tax return.

Under the accrual method, all expenses you incur are recorded in your expense records whether or not you've paid them. An expense you incur this year but do not pay until next year is recorded as this year's expense and taken as a tax deduction on this year's tax return.

USING TAX DEDUCTIONS FOR TAX PLANNING (YEAR-END STRATEGIES)

At the end of the year, you can plan your business transactions to increase or decrease your profit, and therefore increase or decrease the taxes you will pay.

You can postpone or accelerate purchases and other business expenses. If you are on the cash basis method of accounting, you can prepay some of next year's expenses and get a deduction in the current year instead of next year.

Or you can choose to postpone paying some of this year's bills until next year if you would rather get the deduction next year.

For example, you are thinking about buying a new computer, you can buy it in December for a deduction this year, or buy it in January for a deduction next year.

If the current year is a low-income year, and if you already have enough deductions to bring your taxes down and keep your tax bracket at the minimum, you would probably benefit from postponing expenses to next year.

If, on the other hand, this is a high-income year and you could use more deductions to reduce your tax burden, accelerating expenses may be the best next strategy.

You have right up until December 31 to make a purchase that you can deduct for the current year. Once it's New Year's Day, it's too late.

DO CERTAIN TAX DEDUCTIONS TRIGGER AN AUDIT?

Are you afraid to take certain tax deductions because you fear they may trigger an audit?

There are thousands of small-business owners paying millions of dollars in taxes they don't owe simply out of fear of being audited. Most tax deductions, on their own, do no invite an audit. There are a few tax deductions that are red flags and are ones you may want to at least be careful about when preparing your tax return.

They include:

- Large travel deductions
- Deductions for expenses not typically associated with your type of business
- Deductions for items personal or recreational in nature
- Large deductions out of line with the amount of income you are reporting

It's not so much the tax deductions by themselves that increase your chances of being audited. It is the entire context of the tax return along with the items listed above (and others) that raise red flags. The tax return context could be reporting losses year after year that decreases income earned from a full-time job; an industry target by the IRS because of abuse potential and cash-intensive businesses.

If you do find that you are claiming a risky tax deduction, it is up to you to decide how "aggresive" you want to be or how safe you want to be when claiming the deduction.

Your comfort is the real key! No amount of money or tax savings is worth your peace of mind.

But if you are entitled to the deduction, take it! The laws were written to allow these deductions. If you have nothing to hide and lots to save, I would go for it!

There is usually no penalty for making an honest mistake or a reasonable, though incorrect, interpretation of the law.

Maximizing Tax Deductions
The Low Hanging Fruit

I know that you, savvy smart beautypreneur, already know these, but here's a cheat sheet to remind you of common business deductions you should be taking.

1. **Education (Classes, Books, Training, Industry Magazines, Trade Shows, Certification Expenses)**

2. Travel (Transportation, Lodging & Meals to trade shows or off-site jobs)

3. Mileage/Car & Auto

4. Tools and Supplies (Styling tools such as dryers, straighteners, curling irons, clips, towels, caps, towels, latex gloves and etc.)

5. Products (shampoo, conditioner, styling products, skin care products, hair removal products, make-up, and any other product used to perform services or run the business).

6. Furniture & Equipment (Salon station chairs, carts, and stools used by your stylists Facial and massage tables used by your practitioners, waiting room furniture like chairs, tables, and product displays)(Skin care equipment, like facial steamers, microdermabrasion machines, and more)

7. Marketing & Advertising (Marketing collateral, including materials like business cards and flyers, as well as other expenses like website development and hosting)

8. Business Insurance (Business insurance premiums, including for policies like general liability, workers' compensation, and more)

9. Accounting, Bookkeeping & Tax Costs

10. Software Costs

11. Office Expenses

12. Business Interest Expense

13. Business Meals (Snacks and meals, including business meals with clients, or snacks provided for employee breaks in the salon or spa ,company parties where all employees are invited, which are 100% deductible under current tax standards)

14. Employee Related Expenses (Employee salaries and benefits plans, uniforms or beauty tunics, so long as they are only worn in the salon or spa)

15. Payment processing fees

16. Professional fees (business and professional licenses)

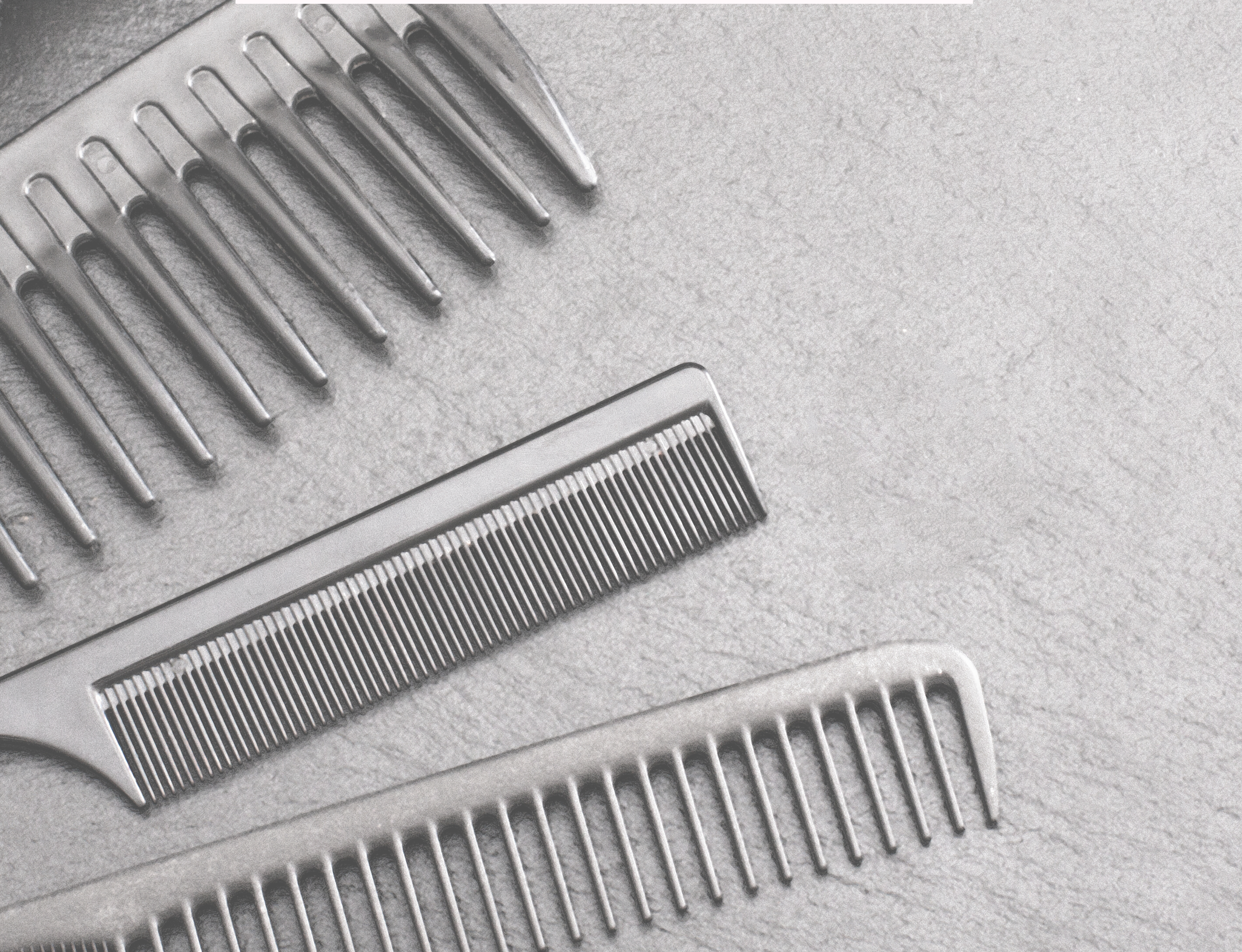
17. Repairs & Maintenance

18. Rent (Facility or Equipment)

19. Telephone, Cable, Internet

20. Utilities

21. Charitable Deductions



Maximizing Tax Deductions
Other Clever Deductions

22. Administrative Home Office: Business owners who have a business location outside of their home, but also maintain a home administrative office for running the business can claim the home office as their primary office.

23. Mileage between the home office and salon/spa/barbershop: As a result of the Admin Home Office, all mileage for business purposes from the home office is deductible, including trips to business location(s) outside of the home.

24. Hiring your child: Sole-proprietors and spousal partnerships can pay children up to $12,200 (for 2019) without incurring any tax (income nor payroll) for legitimate services rendered to the business based on a market rate of pay. S and C corporations and non-spousal partnerships can also take advantage of this strategy, however they are not exempt from payroll taxes, social security and Medicare. The business can take the deduction for the payment of the wages. On the child's tax return, taxable income will be zero, since the wages are less than or equal to the amount of the standard deduction ($12,200 for 2019),.

25. Travel Combined with Vacation: Travel to attend conferences and seminars is also deductible and vacations can often be tacked onto these trips. Travel to and from the location for the participants is deductible as is lodging for conference/seminar nights, however non-business and non-conference days are not deductible.

26. Maximize Depreciation:

a. **Section 179 allows full expensing of acquired assets (up to certain limits). Most equipment, furniture & fixtures qualifies for Section 179 treatment.**
b. **Bonus Depreciation allows 100 percent depreciation (for 2019) for qualified property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023.**
c. **The IRS allows for expensing items under certain limits, like small tools and equipment. The business sets a reasonable policy for capitalization limits, then expenses individual items under that limit. For example, if a client establishes $1,000 as the limit and buys a computer for $800, the computer would be expensed rather than depreciated.**

27. Health Insurance Premiums: The self-employed health insurance deduction allows the eligible self-employed to deduct up to 100% of health, dental, and long-term care insurance premiums for themselves and for their spouses, dependents, and non-dependent children under age 27.

Notes & Thoughts