



The Taxorcist – What You Need to Survive Tax Season

<http://www.hfpn.com/library/article.aspx?id=9153>



Key Points

- Taxes are part of your responsibility as an independent contractor or business owner
- Register your business with state and local authorities to learn more about tax responsibilities
- Record keeping and deductions can mean the difference between success and failure

As an independent business owner, your tax filing goal is to reduce your taxable income. Your whole year should be in pursuit of legitimately reducing this burden. Of course, it is easier said than done, but it needs to be done.

At one time or another in our professional lives, most of us have experienced the horror of tax season. Those that have been through a scary tax experience vow never to wait until April 14th to work on taxes.

“People should be scared of the IRS”, shares Stacie S. McClure, “but if they are doing things right and keeping the right records and filing what they are supposed to file, then they can easily survive an audit.”

Stacie is a Certified Public Accountant (CPA) in the Greater Seattle area and she knows how to survive the tax season. After 15 years of experience with firms such as KPMG, Stacie started her own company to help guide individuals—including small business owners and independent contractors—safely through planning and preparing taxes. Owning her own business, she understands your passion and doesn't want to see it drowned in paper work or

lost in penalties. “They know how to be successful personal trainers, but if they don’t take care of the tax part—no matter how good of a personal trainer they are—they are going to find themselves out of business.”

Taxes are part of your responsibility as a business owner. In a worst-case scenario, you can lose both your passion and your business from potential tax problems. In a more likely scenario, you can lose tax savings due to poor record keeping and missed deductions. The more time you spend building your tax “system” the more freedom and choice you will have when it comes time to file.

So, how can you control your taxes?

Keep your head above water

You don’t want Stacie to take the leading role in your tax story. “It is a lot better to talk with an accountant and get their expertise up front than it is to have an accountant help you dig out of a mess.”

It starts at the beginning. If you are planning, just started, or even a few years into your health and fitness business, take time to solidify your foundation. You can work with a professional such as Stacie or a bookkeeper to help register your business with state and local authorities. Registering your business not only gives you a chance to come up with a really cool name, but also triggers a chain of information to help you understand your tax obligations. For instance, in Washington State your personal training services are subject to sales tax. It is up to you—the professional—to collect taxes from your client or you will be obligated to pay these taxes out of pocket. Knowing the tax laws is the first step in being a successful business.

If you prefer to work on your own, consult with services such as the U.S. Small Business Administration (<http://www.sba.gov/>) to help lay this solid foundation for your business. The SBA provides online and in-person help with starting and maintaining a business, including:

- Planning Your Business - <http://www.sba.gov/smallbusinessplanner/plan/index.html>
- Starting Your Business - <http://www.sba.gov/smallbusinessplanner/start/index.html>
- Managing Your Business - <http://www.sba.gov/smallbusinessplanner/manage/index.html>
- Your Tax Obligations - <http://www.sba.gov/smallbusinessplanner/manage/paytaxes/index.html>

It is the toughest part of running the business—record keeping. But it is also the most important task you can do to keep your focus on your profession and not on the numbers. The best way to make the task of record keeping easier is to make it a habit. Schedule time daily to note and record daily expenses— and be diligent with this task. If your clientele keeps you mobile, use a small notebook to record expenses throughout the day. Once you are able—hopefully on the same day—file the expenses and receipts in the similar method required when filing taxes. A few moments per day will go a long way in keeping you prepared for taxes. Stacie also suggests using any form of accounting software to help you stay organized with business income and expenses.

Every activity you do as a business should be recorded. These files include all forms of receipts (register, invoices, credit card, etc.) in categories such as:

- Sales and gross receipts
- Purchases
- Expenses
- Travel, transportation, entertainment, and gift expenses
- Assets

Lastly, you can help build your business tax knowledge base by visiting the source—the IRS (www.irs.gov). The IRS online information can be very helpful in answering your questions throughout the year—such as the Frequently Asked Questions section (<http://www.irs.gov/faqs/index.html>).

Make Tax Season a Happy Ending

File. *That is it—just file.*

Even if you are unable to afford your tax burden, still file. If you don't file—not only will you have a late payment penalty, but you will also be responsible for a late filing penalty. Penalties start a dangerous cycle that can lead to a failed business.

- **File on-time and avoid filing an extension at all costs.** With an extension, you will still need to prepare an estimate—which may take the same amount of time filing in the first place—and pay what you think you owe. If you underestimate this tax burden, you will need to pay a late fee and interest when you file. That is never good for a business.
- While filing, know your deductions or hire a tax professional to help identify these business incentives. Did you know that gifts to clients or even owners of gyms can be deducted up to \$25 per gift? You know you can deduct education expenses in maintaining your certification obligations, but what you might not know is that you may be able to deduct education expenses in your pursuit of expanding your client base or list of services—such as pursuing another certification or a degree.

Filing all of the deductions you are permitted can mean the difference between a successful business and failure. Deductions can also signal the IRS to conduct a tax audit if your “business” looks more like a pastime—known as the “Hobby Law”. Candid reviews—from yourself or a third party—of your business activities can help determine if your efforts are in the pursuit of profit or to only work out for free.

Set up a system of record keeping that you are comfortable with and stay with this task at all times. Be prepared for taxes throughout the year so you can feel good and—in turn—you can concentrate on helping others feel good. That is why you are in this business in the first place.

Stacie provides her clients with the following deduction information to help prepare and file their taxes:

- **Depreciation** – Equipment that will be useable for a period of time (beyond a year) can be deducted over a number of years while in use. Spread the depreciation over several tax years.
- **Business Use at Your Home** – You can deduct “home office” expenses as long as the area is used exclusively for business, regularly used, and used for your business management or meeting with clients.
- **Car/Truck Expenses** – You can deduct the business use of your personal car.
- **Travel, Entertainment, Gifts** – There are specific requirements for business expenses in this area. Make sure you know these requirements and stay clear of “hobby” activities.
- **Business Insurance** – Deduct premiums for business insurance such as liability and/or malpractice insurance.
- **Health insurance** – Health insurance for the self-employed is deductible from your adjusted gross income. Make sure you know the requirements.
- **Interest** – You can deduct interest paid related to your business.
- **Legal and Professional Fees** – You can deduct consulting services such as a CPA related to your business.
- **Taxes** – Some federal, state, and local taxes related to your business can be deducted.

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