SoloHustle

A Solo Entrepreneur's Guide to Taxes

Contents

Introduction

At Solo Hustle, our goal is to make the management and growth of small businesses and side hustles easier for solo entrepreneurs. We want you to focus your energy on growing your business, not shuffling paperwork.

As tax season approaches, we have tips and ideas to make a complicated process easier. Check out our simple checklists, tips on working with a CPA (and why you should) and more.

Tax Season:
A Checklist for Small Businesses

Most individuals give a small groan when January rolls around. It's not just the tight clothes from too many Christmas cookies—it's also the knowledge that taxes are now due, documents will be coming in the mail, notifications will be filling email boxes, and the yearly headache is once again upon us.

For small businesses, side hustles, and others who are working for themselves, taxes can be an even larger headache, especially for new Solo Hustlers. So let's spend a little time cutting through the confusion with an easy to follow checklist and tips of what you need to complete for Uncle Sam.

Disclaimer. This checklist is meant to be a helpful place to start. Consult tax professionals to ensure that you and your business are in complete compliance with IRS rules.

Don't Miss Deadlines

There's a good reason why people hate paying taxes (besides the obvious... $$$). The IRS is notoriously onerous, confusing, contradictory, unforgiving, and, frankly, frightening. (They caught Capone!)

First things first—you MUST understand when taxes are due and you MUST understand that taxes for businesses and independent contractors are not the same as personal income tax. So let's review the choices you need to make to properly file your taxes on time.

Understand Your Tax Year

Taxes can be paid by the calendar year (January > December) or fiscal year (any 12 month period ending on the last day of any month except December). You choose your tax year when you file your first tax return using either a calendar or fiscal year, and once chosen you must remain on that schedule unless you receive permission from the IRS to change it.

Choosing a tax year does NOT happen when you do any of the following:

- File an application for an extension of time to file an income tax return.
- File an application for an employer identification number.
- Pay estimated taxes for the current year.

Any entity may choose to use the calendar year for taxes, but if any of the following are true you must use the calendar year:

- You keep no books or records.
- You have no annual accounting period.
- Your present tax year does not qualify as a fiscal year.
- You are required to use a calendar year by a provision of the Internal Revenue Code or the Income Tax Regulations.

Remember Other Deadlines

- Sole proprietorship and single member LLC businesses owe taxes on April 15—the same as individual income tax deadlines.
- S corporations or partnerships owe taxes on March 15.
- If you have been in business for any part of a calendar year, you will owe taxes for that year. Taxes are not deferred until the first full calendar year.

What Kind of Taxes Need To Be Paid

Sadly, the IRS does not simply collect "personal taxes" and "business taxes." So let's review the kinds of taxes you need to be prepared to file and pay.

Income Tax

Unless your business is a partnership, you must file an annual income tax return. Income tax is "pay as you go"—it must be paid as it is earned. Individuals working for employers have tax withheld from their paychecks, and end of year tax

returns allow for remainders to be paid or overpayments to be refunded.

Estimated Tax
As a sole proprietor you may be required to pay estimated taxes throughout the year. (Consult a tax professional to determine when and how taxes must be paid throughout the year.) Estimated tax payments are generally required to be paid if you expect to owe tax of $1,000 or more when your return is filed.

Estimated taxes are due:

- January 1 to March 31 – April 15
- April 1 to May 31 – June 15
- June 1 to August 31 – September 15
- September 1 to December 31 – January 15 of the following year

Self-Employment Tax
Self-employment tax is a Social Security and Medicare tax for individuals who work for themselves. You must pay self-employment tax if your net earnings from self-employment were $400 or more.

Employment Taxes
If you have employees, you are responsible for employment tax that you must pay and forms you must file. Employment taxes include the following:

- Social security and Medicare taxes
- Federal income tax withholding
- Federal unemployment (FUTA) tax

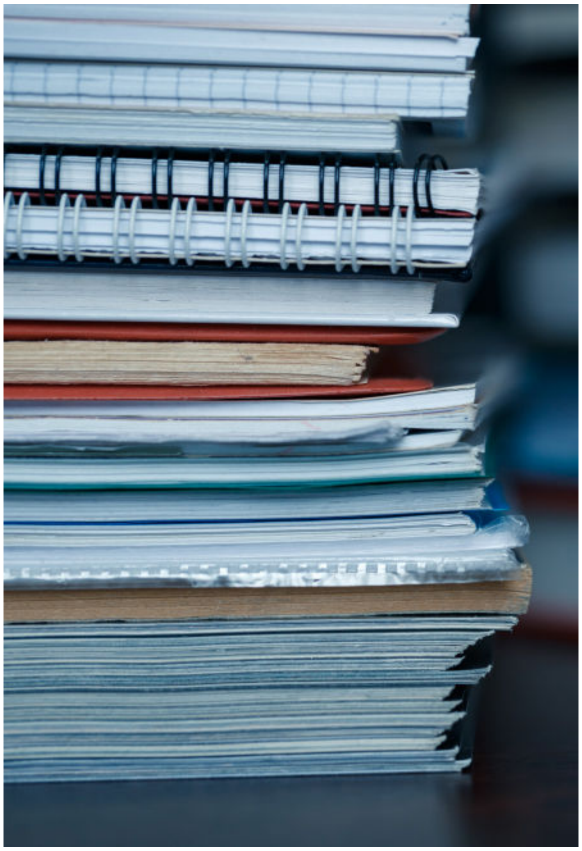
Excise Tax
Excise taxes are due if you do any of the following:

- Manufacture or sell certain products
- Operate certain kinds of businesses
- Use various kinds of equipment, facilities, or products
- Receive payment for certain services

The types of excise taxes include the following:

- Environmental taxes
- Communications and air transportation taxes
- Fuel taxes
- Tax on the first retail sale of heavy trucks, trailers, and tractors
- Manufacturers taxes on the sale or use of a variety of different articles

Excise taxes can be complicated and



we strongly recommend consulting a tax professional to determine if your solo business requires payment of any variations.

Quick Checklist
In summary, sole proprietorship businesses may owe the following taxes:

- Income tax
- Self-employment tax
- Estimated tax
- Social Security and Medicare taxes
- Federal unemployment tax
- Excise taxes
- Information returns for payments to contractors, etc.

Paperwork You Need To File Taxes

First, understand the forms you need. After confirming the types of taxes you will be required to pay with your tax professional, pull the forms you'll need to correctly file those taxes. Common forms will include:

- Form 1040 and Schedule C for sole proprietorships to report business income and expenses
- Form 1120 for C corporations
- Form 1120-S for S corporations
- Form 1065 for partnerships, along with individual partner information on Schedule K-1

To accurately fill out the required forms, you must document expenses, income, payments to employees or contractors, etc. In general, this includes:

- Records of gross receipts from sales of goods or services
- Documentation of refunds or goods received in turn. IMPORTANT: This prevents you from paying taxes on income that you did not receive.
- Interest or investment income from financial accounts you own in the name of your business. (1099-INT or account statements)
- Documentation of payments made to independent contractors or employees (1099-NEC and W-2)

Decrease Your Owed Taxes

Small businesses are eligible for a wide variety of tax credits and deductions, but they must be properly documented. Retain the following paperwork to get the tax savings you deserve:

- Insurance payments
- Supplies
- Utilities
- Professional fees, don't involve a lot of extra documentation.
- Home office deduction
- Transportation costs
- Meals and entertainment
- Small business health insurance
- Advertising
- Internet, fax, phone line costs

Consult your tax professional to ensure that all eligible deductions are accounted for, and don't assume that your business is eligible for all deductions.

Conclusion

Staying on top of paperwork and keeping an eye on the calendar can ensure that paying taxes for your small business is relatively simple and painless. Using tools like Solo Hustle simplifies the process of keeping accurate records, including contractor payments and refunds, to lessen your tax liability and stay on the good side of the IRS.

For further questions, consult IRS resources.

Taxes & Venmo

What To Know with Peer-to-Peer Payment Platforms

venmo

In mid-2020, the online payment sharing app Venmo announced a pilot program for business profiles. By February 2021, over 150,000 merchants were accepting Venmo payments for goods and services. In mid-2022, Venmo claimed this number was over 2 million.

One of the driving factors behind the rise of business accounts is legislation aimed at cracking down on tax avoidance through peer-to-peer (P2P) applications such as Venmo and its parent company PayPal. Prior to 2022, P2P providers were required to report gross sales to the IRS if a vendor accepted:

- Over $20,000 in gross payment volume AND
- Over 200 separate payments in a calendar year

As of 2022, P2P providers must report gross payments over $600 to any account, regardless of the number of transactions.

In addition, when Venmo identifies transactions as payment for goods or services, they automatically apply "consumer protections" and deduct 1.9% of the transaction as a fee. If you've been to a farmer's market or small vendor venue and been asked to not add an accurate description of the transaction, you've probably encountered a small business trying to avoid paying for Venmo's business profile. (But don't assume they are also trying to avoid paying taxes!)

Benefits of a P2P

Is it worth it to accept payments with a P2P? Many side hustles avoid signing up because of already razor thin profit margins. P2Ps do charge fees and deduct a percentage of transaction amounts, after all.

But when planning long-term for the growth of your business, there are some helpful benefits to having a payment processing system.

Easier Sales
On average, only 16% of Americans carry cash. If your side hustle relies on places like artisan markets, farmers markets, or other pedestrian friendly outlets, having a non-cash payment option is likely to result in higher sales which could more than offset the cost of a P2P.

Easier Taxes
Most P2P applications integrate with existing financial management tools such as Quickbooks, making it easier to gather the paperwork needed to file quarterly taxes.

Increase Web Sales
If you're at the point where you are using social media or websites to increase sales, having a P2P option is a no-brainer. For example, recent research shows that PayPal checkout converts at 88.7%, a whopping 82% higher than a checkout without PayPal. Further, 52% of mobile customers made more online purchases/ transactions when PayPal was offered as a checkout option. The more you remove blocks from the buying journey, the more sales you'll earn.

Social Distancing
In a new pandemic-conscious world, providing safety to employees and customers through contactless transactions is always beneficial.

Viral Marketing
P2P platforms like Venmo include a social element for a specific reason: viral marketing. Word-of-mouth and recommendations from trusted sources remain two of the most valuable marketing tools available to small businesses. The ability for your customers to make public where they are repeatedly buying goods and services increases organic traffic to your business.

Automatic Purchase Protection
Many P2Ps offer consumers using the platform purchase protection on goods. The benefit serves both the P2P and its business accounts. Customers are likely to purchase when their risk is lowered. The P2P increases revenue with added business accounts and a thriving customer base. Businesses benefit from a growing customer base.

Other Considerations

While businesses must make strategic decisions about where to invest and spend on backend support systems, it's unlikely any growing business can long avoid the investment in a P2P.

Before launching a P2P for your business, consider the following.

- Evaluate fees, weekly transaction limits, the ability to integrate with online shopping carts, and number of potential customers when choosing between P2P options.
- Do the math. Determine if you need to place limits on when you will accept P2P payments over cash or other methods. In the beginning, many small businesses set minimum limits on P2P or credit purchases.

Help Your CPA Help You: Everything To Know About Sales Tax

"Whatever happened to, 'Hey I have some apples. Would you like to buy them?' 'Yes, thank you.' That's as complicated as it should be to run a business in this country."
– Ron Swanson, Parks & Recreation

Despite the wistfulness of comedy TV's favorite anti-government government official, a direct exchange of goods and currency is not, in fact, the correct way to start a business. Among the many challenges faced by solo entrepreneurs and small business owners is the process of charging and handling sales tax for goods sold. If you're working with a CPA (and we strongly encourage you to!), getting you up to speed on the correct procedures and laws about sales tax will likely be a key conversation.

Let's get you up to speed with a quick-start guide to understanding your responsibilities around sales tax:

- When is sales tax required?
- How do you collect sales tax?
- What do you do with the taxes once collected?

When is sales tax required?

Sales tax is typically required when a business sells goods or services to customers within a specific jurisdiction, such as a state, county, or city. The exact requirements for collecting and remitting sales tax can vary depending on the jurisdiction, but in general, sales tax is required when:

1. The sale takes place within a jurisdiction that imposes a sales tax.
   If your business is physically located in a jurisdiction that imposes a sales tax, you will generally be required to collect and remit sales tax on all taxable sales made to customers within that jurisdiction.

2. The customer is located within a jurisdiction that imposes a sales tax.
   If you make sales to customers located in a jurisdiction that imposes a sales tax, you may be required to collect and remit sales tax on those sales, even if your business is not physically located within that jurisdiction. (Think: online sales.)

3. The items sold are taxable.
   Sales tax is typically only required on goods and services that are considered taxable. The specific items that are subject to sales tax can vary depending on the jurisdiction.

It is important to note that sales tax laws and regulations can be complex, and may vary depending on the jurisdiction in which you are operating. To ensure that you are complying with all relevant sales tax laws, it is often advisable to consult with a tax professional or accountant.

Sales tax nexus
A term you're likely to hear in this matter is sales tax nexus: a legal term used to describe the connection between a business and a state or locality that gives the state or locality the authority to require the business to collect and remit sales tax on its taxable sales. In other words, if a business has sales tax nexus in a particular state or locality, it is required to collect and remit sales tax on sales made to customers within that jurisdiction.

Sales tax nexus can be established in several ways that mirror the requirements for when sales tax is required:

- Physical presence
  If a business has a physical presence—such as a store, office, warehouse, or other facility—in a state or locality, it typically has sales tax nexus and is required to collect and remit sales tax on taxable sales made to customers in that jurisdiction.
- Economic presence
  If the business has significant sales within the state or locality, or if it has established other types of connections, such as through affiliate relationships or other business activities, it may have sales tax nexus in those areas. For example, a business located in Alaska (no general sales tax) selling online in Illinois may have sales tax nexus in Illinois.
- Other factors
  In some cases, other factors, such as the

use of drop-shipping arrangements, can also establish sales tax nexus and require a business to collect and remit sales tax in a particular jurisdiction.

Use online resources to start determining whether you have sales tax nexus in any states. Don't forget to consult with your CPA!

How do you collect sales tax?

If you are required to collect sales tax, you will need to obtain a sales tax permit or license from the taxing authority for each state where you have sales tax nexus. Once you have your permit or license, you can begin charging sales tax on your goods.

The requirements for obtaining a sales tax permit may vary depending on your location and the type of business you have. However, in general, you will likely need to provide the following information:

- Business information
  You will need to provide your business name, address, phone number, and email address. You may also need to provide your Employer Identification Number (EIN) or Social Security Number (SSN).
- Business structure
  You will need to indicate the legal structure of your business, such as whether it is a sole proprietorship, partnership, LLC, or corporation.
- Business activities
  You will need to describe the products or services you sell, as well as the locations where you conduct business.
- Sales information
  You will need to estimate your expected sales and provide information on how you will collect and remit sales tax.
- Personal information
  You may need to provide personal information, such as your name, address, and SSN, if you are the owner or an authorized representative of the business.

To obtain a sales tax permit, you should contact your state or local government's tax agency, which will provide you with specific instructions on how to apply for a permit and what documentation you need to provide.

How much sales tax to collect
Each state has its own sales tax rate, which may vary by locality. You will need to determine the correct rate to charge based on where the sale occurs. Some states also have rules about what is taxable and what is exempt, so you will need to know these as well.

Once you know the correct tax rate and rules, you will need to collect the tax from your customers at the time of the sale. You may need to separately state the tax amount on your invoices or receipts.

It's a good practice to keep sales tax collected from customers in a separate bank account. This

will help you keep track of the amount of sales tax you have collected and make it easier to remit the tax to the appropriate tax authority.

How do you remit sales tax?

You will need to periodically remit the sales tax you have collected to the appropriate state agency. The frequency of remittance varies by state, and some states may require you to file a return even if you did not make any sales.

To remit sales tax to a state, you will typically need to follow these steps:

- Check with the state tax authority for each state where you have sales tax nexus to determine the frequency of your sales tax payments.
- Use your sales records to calculate the amount of sales tax you owe for the reporting period. (Ideally this should match what is in your separate sales tax accounts.)
- Fill out the appropriate form for your business and include the amount of sales tax owed.
- Make payment. Some states allow businesses to pay sales tax electronically through their website, while others may require payment by check or money order.
- Keep detailed records of your sales tax payments, including the date and amount of the payment, the reporting period, and any confirmation numbers or receipts.

Now what?

Get a CPA. As we've previously argued, the expense of a CPA for a small business, particularly for new entrepreneurs, far outweighs the costs involved.

Use a system like Solo Hustle to make record-keeping easier. With Solo Hustle you can create line items for each tax rate for each state and locality for which you have nexus, making it easy to quickly calculate correct taxes.

SoloHustle

Thank You

Sign up now to try Solo Hustle for free. Track customers, manage projects, track time, create proposals, manage invoices, and much more.

www.mysolohustle.com