

Financial Management Cohort

Timm Johnson, Director - Mason SBDC

October 01, 2025



Workshop Agenda – Week 1

Week 1 – Building and managing an accounting system

- Basic accounting explained – we will examine your chart of accounts, reports, and processes.
- Accounting Software - how to select the system that's right for you
- Federal Taxes – How to file based on your entity
- Other Tax Tips
- Improving cash collections techniques

Introductions

- Your Name and Company Name
- What do you sell and to whom?
- Years in Business
- Number of Employees

Timm's Accounting Background

- AirFilco Engineering – Bookkeeper
- Lusk Shipping – Controller, Opened 11 offices
- DLP Architects –CFO, GovCon/Commercial
- MAXM Systems – Startup - Dir of Finance/IT
- Corporate Software Tech Services– Dir of Finance
- Caucus Systems – CFO, VC Funded
- Mastermind Tech – CFO - Acquired
- Next Breath/Aptar – Dir of Finance/IT – Public Co.
- Nexutech – CFO - Commercial
- VCP – CFO - GovCon

Why know your numbers?

- To start and grow your business!!!
- Taxes
- Financial Decision Making
- Tracking Business Segments for Profitability
- Legal Compliance
- Obtaining a Loan



Accounting – What's your System?



Why do we need a system?

- Taxes – IRS 1040 Schedule C
- Manage your cash
- Categorize expenses
- Create customer invoices
- Track your receivables
- Manage your bills
- Track Inventory
- Measure profit

Building to Accounting Maturity

GAAP Accrual Accounting

- Revenue & Expense Policy
- Liability Management
- Fixed Asset Management
- Accounting Controls

-----Audit Ready-----

Accrual Accounting

- Accounts Receivable
- Accounts Payable
- Accrual P&L
- Job Cost and Profitability
- Class P&Ls

Cash Management

- Cash Basis P&L
- Manual Invoicing
- Payment by Credit Card
- Limited Reporting

LEVELS OF MATURITY



IRS Expectations

SCHEDULE C (Form 1040)

Profit or Loss From Business (Sole Proprietorship)

OMB No. 1545-0074

2023

Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

Go to www.irs.gov/ScheduleC for instructions and the latest information.

Name of proprietor		Social security number (SSN)	
A Principal business or profession, including product or service (see instructions)		B Enter code from instructions	
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN) (see instr.)	
E Business address (including suite or room no.) City, town or post office, state, and ZIP code			
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify)			
G Did you "materially participate" in the operation of this business during 2023? If "No," see instructions for limit on losses . <input type="checkbox"/> Yes <input type="checkbox"/> No			
H If you started or acquired this business during 2023, check here <input type="checkbox"/>			
I Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions <input type="checkbox"/> Yes <input type="checkbox"/> No			
J If "Yes," did you or will you file required Form(s) 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No			

IRS Expectations

- F** Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify) _____
- G** Did you “materially participate” in the operation of this business during 2023? If “No,” see ir
- H** If you started or acquired this business during 2023, check here

Part I Income

- 1** Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the “Statutory employee” box on that form was checked ☐
- 2** Returns and allowances
- 3** Subtract line 2 from line 1
- 4** Cost of goods sold (from line 42)
- 5** **Gross profit.** Subtract line 4 from line 3
- 6** Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)
- 7** **Gross income.** Add lines 5 and 6

Accounting Methods

- **Cash Basis** – typical for Tax Returns, recognizes income and expense when processed through your bank
- **Accrual Basis** – Transactions are based on when a transaction occurs – Invoice date for sales, Bill date for expenses. And certain accrued or prepaid expenses are realized to reflect true Asset Value or Liability Value
- **Accrual Basis GAAP Compliant** – Additional rules for areas like revenue recognition and cost recognition are applied
- The Government wants you to work towards GAAP compliance AND Management Controls are in place (like segregation of duties).

IRS Expectations

1 **Gross income.** Add lines 5 and 6.

Part II **Expenses.** Enter expenses on lines 8 through 17.

8	Advertising
9	Car and truck expenses (see instructions)
10	Commissions and fees
11	Contract labor (see instructions)
12	Depletion
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)
14	Employee benefit programs (other than on line 19)
15	Insurance (other than health)
16	Interest (see instructions):
a	Mortgage (paid to banks, etc.)
b	Other
17	Legal and professional services

18	Office expense (see instructions)
19	Pension and profit-sharing plans
20	Rent or lease (see instructions):
a	Vehicles, machinery, and equipment
b	Other business property
21	Repairs and maintenance
22	Supplies (not included in Part III)
23	Taxes and licenses
24	Travel and meals:
a	Travel
b	Deductible meals (see instructions)
25	Utilities
26	Wages (less employment credits)
27a	Other expenses (from line 48)
b	Energy efficient commercial bldgs deduction (attach Form 7205)

Accounting Definitions

- Profit & Loss – Income Statement
- Balance Sheet
- Cash Flow
- Cash Forecast
- Gross Margin
- EBITDA
- Net Profit/Income

Profit & Loss Statement

Income - Expenses = Net Profit or Loss

Profit and Loss
January 1 - June 28, 2022

	TOTAL
▼ Income	
4100 Revenue	13,570.50
Billable Expense Income	0.00
Discounts given	-6.40
Markup	518.50
Total Income	\$14,082.60
▼ Cost of Goods Sold	
5000 Purchases (Cost of Goods)	6,258.00
Cost of Goods Sold	10.80
Total Cost of Goods Sold	\$6,268.80
GROSS PROFIT	\$7,813.80
► Expenses	\$7,113.74
NET OPERATING INCOME	\$700.06
▼ Other Income	
Late Fee Income	60.00
Total Other Income	\$60.00
▼ Other Expenses	
Unrealized Gain or Loss	0.00
Total Other Expenses	\$0.00
NET OTHER INCOME	\$60.00
NET INCOME	\$760.06

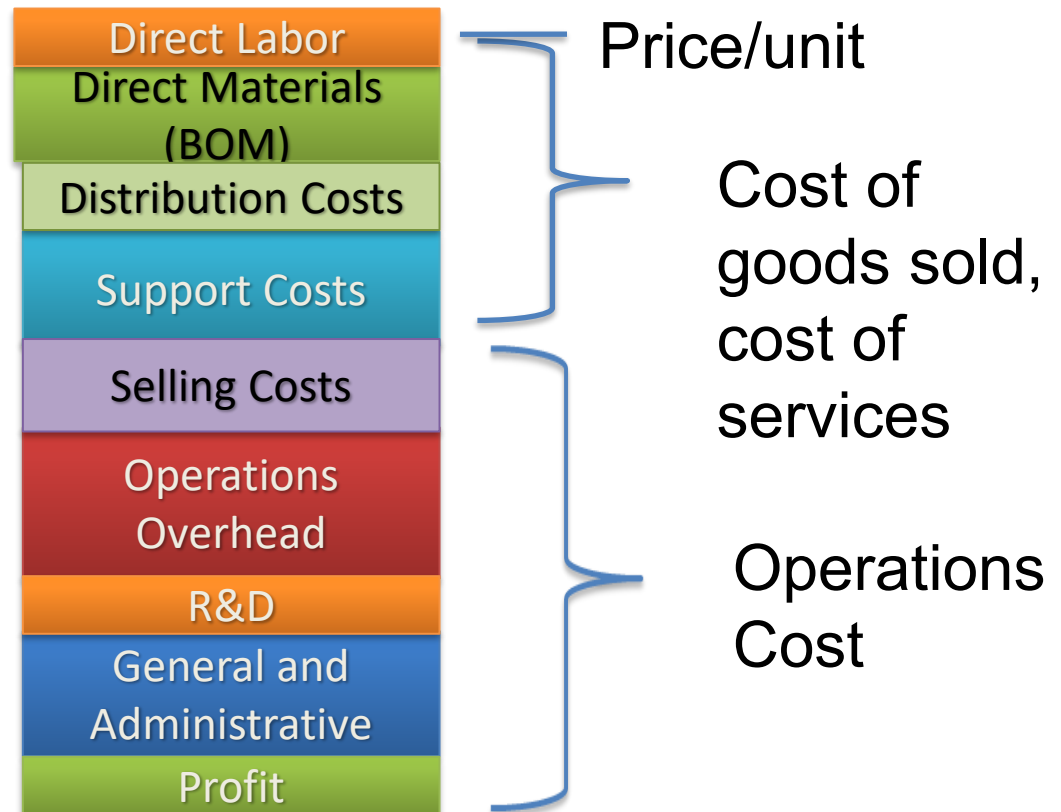
Cost Stack – P&L Cost Centers

Revenue (Rev)

$$\text{Rev} = \text{Price} * \text{Units}$$

Gross Margin (GM)

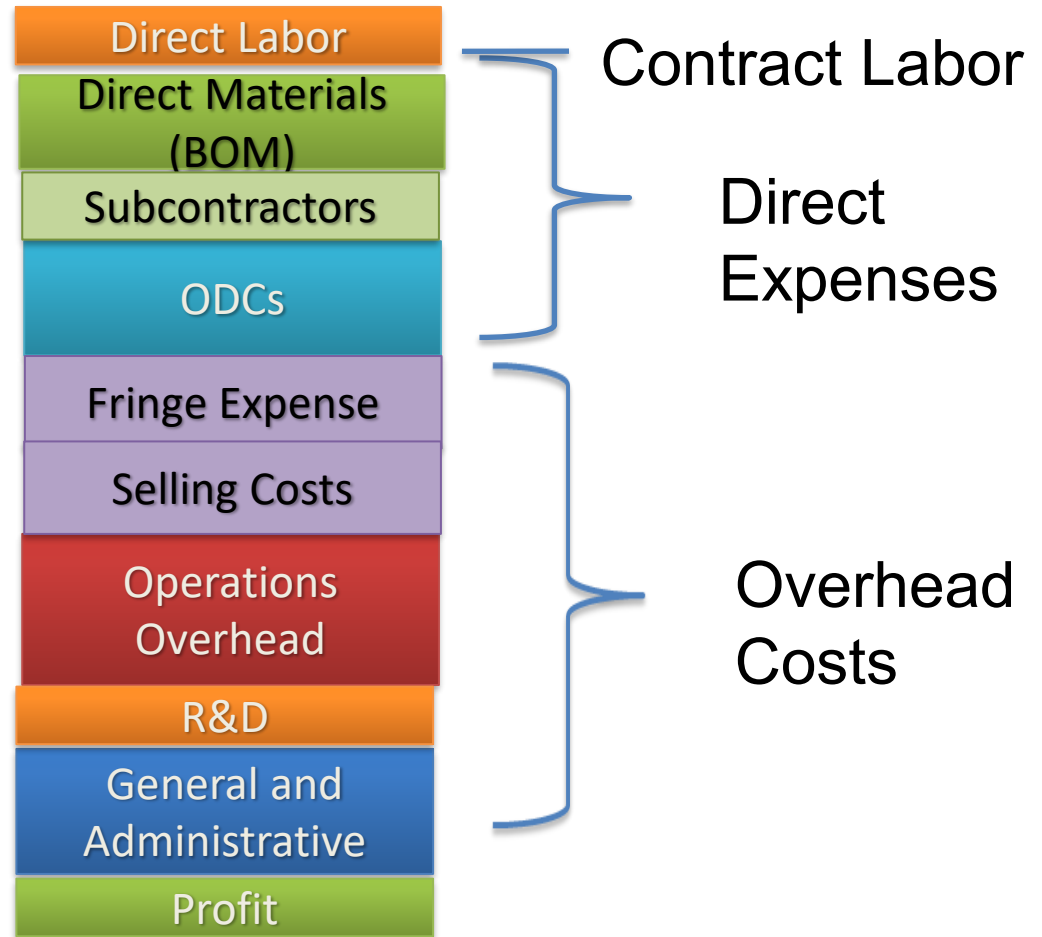
$$\text{GM} = \text{Rev} - \text{COGS}$$



Cost Stack – Government Contracting

Fringe Rate	9.63%
Overhead Rate	32.83%
G&A Rate	7.33%

Total Indirect Rate	44.72%
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Balance Sheet

What you OWN vs. What you OWE

- Assets (what you OWN)
- Liabilities (what you OWE)
- Owner's Equity (Ownership of the Business)

Apple Inc.
CONSOLIDATED BALANCE SHEETS
(In millions, except number of shares which are reflected in thousands and par value)

	September 26, 2020	September 28, 2019
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 38,016	\$ 48,844
Marketable securities	52,927	51,713
Accounts receivable, net	16,120	22,926
Inventories	4,061	4,106
Vendor non-trade receivables	21,325	22,878
Other current assets	11,264	12,352
Total current assets	143,713	162,819
Non-current assets:		
Marketable securities	100,887	105,341
Property, plant and equipment, net	36,766	37,378
Other non-current assets	42,522	32,978
Total non-current assets	180,175	175,697
Total assets	\$ 323,888	\$ 338,516
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 42,296	\$ 46,236
Other current liabilities	42,684	37,720
Deferred revenue	6,643	5,522
Commercial paper	4,996	5,980
Term debt	8,773	10,260
Total current liabilities	105,392	105,718
Non-current liabilities:		
Term debt	98,667	91,807
Other non-current liabilities	54,490	50,503
Total non-current liabilities	153,157	142,310
Total liabilities	258,549	248,028
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, \$0.00001 par value: 50,400,000 shares authorized; 16,976,763 and 17,772,945 shares issued and outstanding, respectively	50,779	45,174
Retained earnings	14,966	45,898
Accumulated other comprehensive income/(loss)	(406)	(584)
Total shareholders' equity	65,339	90,488
Total liabilities and shareholders' equity	\$ 323,888	\$ 338,516

See accompanying Notes to Consolidated Financial Statements.
Apple Inc. | 2020 Form 10-K

SAMPLE BALANCE SHEET

ASSETS

Current Assets

Checking Account	5,000
Savings Account	1,000
Petty Cash	500
Accounts Receivable	22,000
Inventory	15,000
Prepaid Insurance	6,000

Total Current Assets: 49,500

Noncurrent Assets

Accumulated Depreciation	-4,500
Computer	7,000
Building	65,000
Land	60,000

Total Noncurrent Assets: 127,000

Total Assets: 177,000

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable	12,000
Line of Credit	20,000
Payroll Liabilities	7,000

Total Current Liabilities: 39,000

Noncurrent Liabilities

Long-term Debt (loan)	48,000
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Total Liabilities: 87,000

Equity

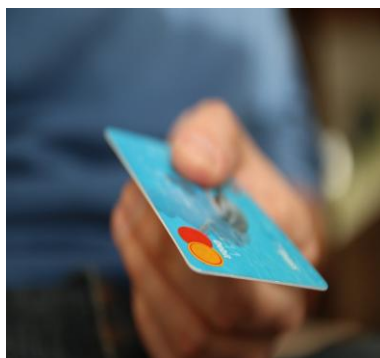
Owner's Capital	35,000
Retained Earnings	55,000

Total Equity: 90,000

Total Liabilities & Equity: 177,000

Recordkeeping Best Practices

- Have business checking AND savings accounts
- Get a debit card for the checking account
- **Keep personal transactions OUT of the business**
- Capture every dollar of expense to reduce business taxes (up next)
- Put aside money for quarterly estimated income taxes



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Choosing an accounting system

- **Minimum:** spreadsheets
- **Better:** Wave (basic level is free) cloud accounting
- **Better Yet:** QuickBooks Online (SBDC discounts available)
- **Other Options:** Sage, Xero, Fresh Books, Zoho, Wave Money, app integrations, industry specific



Simple Expense Spreadsheet

2023 Year					
<u>Month</u>	<u>Telecom</u>	<u>Office</u>	<u>Non-Capital H/W & S/W</u>	<u>Printing</u>	<u>Postage</u>
January					
February		\$ 92.21			
March		\$ 12.06			
April					
May		\$ 184.42			
June					
July		\$ 16.71			
August					
September					
October		\$ 52.98			
November		\$ 59.36			
December		\$ 101.75			
Summary from Credit Card		40.79	1,150.85		16.80
Summary from Verizon	\$1,273.93				
Totals for the month	\$ 1,273.93	\$ 560.28	\$ 1,150.85	\$ -	\$ 16.80

Accounting Software

- Based on Double Entry Method
- Transactions downloaded from Bank
- Categorization of Bank transactions
 - Cash Receipts
 - Cash Expenditures
- Customer Invoices
- Vendor Bills
- Inventory Tracking
- Credit Card Processing
- Project Profitability

Double Entry Accounting

Cash

Debit	Credit
\$25,000.00	

Income - Sales

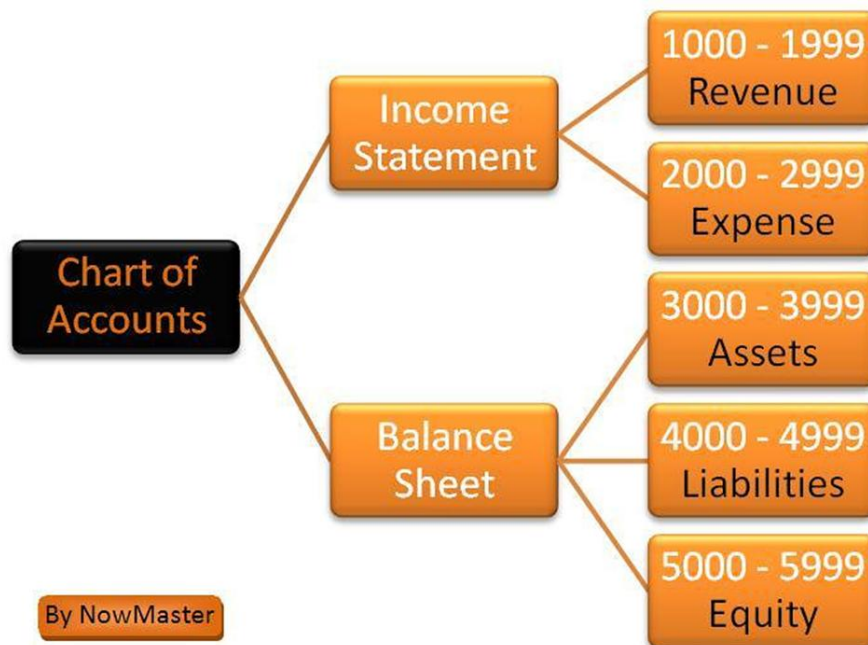
Debit	Credit
	\$25,000.00

Accounts Receivable

Debit	Credit
\$25,000.00	\$25,000.00

Five Primary Account Types in your Chart of Accounts

- Revenue (Income)
- Expenses
- Assets
- Liabilities
- Equity



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QuickBooks Chart of Accounts

Acct #	Profit & Loss Account Name	S-Corporation Chart of Accounts Account Type	QuickBooks Online Detail Type
	Income		
40000	Services	Income	Service/Fee Income
40100	Sales of Product Income	Income	Sales of Product Income
40200	Commissions	Income	Other Primary Income
40800	Discounts Given	Discounts/Refunds Given	Discounts/Refunds Given
40900	Refunds Given	Discounts/Refunds Given	Discounts/Refunds Given
	Cost of Goods Sold		
50000	Cost of Goods Sold	Cost of Goods Sold	Supplies & Materials - COS
50100	Purchases	Cost of Goods Sold	Supplies & Materials - COS
50200	Cost of Labor	Cost of Goods Sold	Cost of Labor - COS
50300	Equipment Rental	Cost of Goods Sold	Equipment Rental - COS
50400	Shipping, Freight & Deliver	Cost of Goods Sold	Shipping, Freight & Deliver - COS

QuickBooks Chart of Accounts

	Expenses		
60000	Payroll Expenses	Expenses	Payroll Expenses
60100	Payroll Expenses:Officer Wages	Expenses	Expenses
60200	Payroll Expenses:Salaries & Wages	Expenses	Payroll Expenses
60300	Payroll Expenses:Payroll Tax Expense	Expenses	Payroll Expenses
60400	Payroll Expenses:Payroll Service Fees	Expenses	Payroll Expenses
60500	401K or Simple IRA Match	Expenses	Payroll Expenses
60600	Insurance - Health	Expenses	Payroll Expenses
61000	Advertising	Expenses	Advertising/Promotional
61100	Auto Expenses	Expenses	Auto
61200	Auto Expenses: Fuel	Expenses	Auto
61300	Auto Expenses: License	Expenses	Auto
61400	Auto Expenses: Service	Expenses	Auto
61500	Auto Expenses:Insurance	Expenses	Auto
61700	Bank Charges	Expenses	Bank Charges
61800	Merchant Service Fees	Expenses	Bank Charges
61900	Charitable Contributions	Expenses	Charitable Contributions
62100	Continuing Education	Expenses	Other Business Expense
62400	Depreciation	Expenses	Other Business Expense
62500	Dues & Subscriptions	Expenses	Dues & Subscriptions
63000	Insurance - Liability	Expenses	Insurance
63100	Insurance - Workers Comp	Expenses	Insurance
63200	Insurance - Keyman Life	Expenses	Insurance
63300	Insurance - Bond	Expenses	Insurance

QuickBooks Chart of Accounts

63900	Interest Expense	Expenses	Interest Paid
64200	Janitor ⁺	Expenses	Other Business Expense
64400	License & Fees	Expenses	Other Business Expense
64500	Legal & Professional	Expenses	Legal & Professional Fees
64700	Meals & Entertainment	Expenses	Entertainment Meals
64800	Office Expense	Expenses	Office/General Administrative Expenses
65000	Property Tax	Expenses	Taxes Paid
65200	Repairs & Maintenance	Expenses	Repairs & Maintenance
65400	Small Tools & Supplies	Expenses	Other Business Expense
65600	Telephone & Communications	Expenses	Telephone & Communications
66000	Travel	Expenses	Travel
66100	Travel:Transportation	Expenses	Travel
66200	Travel:Lodging	Expenses	Travel
66300	Travel:Meals	Expenses	Travel:Meals
67000	Utilities	Expenses	Utilities
70000	Interest Earned	Other Income	Interest Earned
70100	Cash Rewards	Other Income	Other Miscellaneous Income
80000	Gain/Loss Sale of Asset	Other Expense	Other Miscellaneous Expense
99999	Ask My Accountant	Other Expense	Other Miscellaneous Expense

QuickBooks Chart of Accounts

	Balance Sheet	S-Corporation Chart of Accounts	QuickBooks Online
Acct #	Account Name	Account Type	Account Detail
	Assets		
10000	Checking Account 1234	Bank	Checking
10100	Payroll Account 5678	Bank	Checking
10200	Savings Account 8765	Bank	Savings
10900	Petty Cash	Bank	Cash on Hand
11000	Accounts Receivable (A/R)	Accounts receivable (A/R)	Accounts Receivable (A/R)
12000	Undeposited Funds	Other Current Asset	Undeposited Funds
12100	Inventory Asset	Other Current Asset	Inventory
15000	Furniture & Fixtures	Fixed Asset	Fixed Asset Furniture
15100	Machinery & Equipment	Fixed Asset	Machinery & Equipment
15200	Vehicles	Fixed Asset	Vehicles
15900	Accumulated Depreciation	Fixed Asset	Accumulated Depreciation
16000	Leasehold Improvements	Fixed Asset	Leasehold Improvements
16100	Accumulated Amortization	Fixed Asset	Accumulated Amortization
17000	Security Deposits	Other Assets	Security Deposits
17100	Investments	Other Assets	Other Long-term Assets

QuickBooks Chart of Accounts

	Liabilities		
20000	Accounts Payable (A/P)	Accounts payable (A/P)	Accounts Payable (A/P)
21000	Credit Card 6677	Credit Card	Credit Card
22000	Payroll Liabilities	Other Current Liabilities	Payroll Tax Payable
22100	Payroll Liabilities:Federal Tax Payable	Other Current Liabilities	Payroll Tax Payable
22200	Payroll Liabilities: FUTA Tax Payable	Other Current Liabilities	Payroll Tax Payable
22300	Payroll Liabilities: State Tax Payable	Other Current Liabilities	Payroll Tax Payable
22400	Payroll Liabilities:SUTA Tax Payable	Other Current Liabilities	Payroll Tax Payable
22500	Wage Garnishments	Other Current Liabilities	Payroll Tax Payable
22600	401k or Smiple IRA Payable	Other Current Liabilities	Other Current Liabilities
22700	Health Insurance Payable	Other Current Liabilities	Insurance Payable
	Equity		
30000	Common Stock		
30100	Retained Earnings		
30200	Paid In Capital		
32000	Shareholder Contributions		
32100	Shareholder Distributions		

Accounting Maturity

- Bookkeeper – In-house or Outsource
- CPA – Mostly for Taxes
- Controller – Management and Internal Controls
- CFO – Contracts and Reporting
- Segregation of Duties
 - Accounts Payable
 - Accounts Receivable
 - Payroll

What About Payroll

- Integrated with Accounting
 - Intuit, Wave
- 3rd Party – HR Services
- Multi-State
- 1099 Independent Contractors
- Expense Reimbursement
- Timesheet Support
- Benefits Management
- Professional Employment Organization (PEO)

 onpay

 gusto

 Justworks

 **PAYCHEX**

 ADP

 Paycor



Winners

Runner Up

Best
Small Business

QuickBooks



Xero



Best
Medium Business

Sage Intacct



Epicor Financial Management



Best
Enterprise

NetSuite ERP



Infor Enterprise Financial Management



Best
Cloud

QuickBooks



Microsoft Dynamics GP



Best
Free

Wave



ZipBooks



Best
Customer Support

FreshBooks



NetSuite ERP



QuickBooks vs Wave

Simple Start

~~\$35~~
\$17⁵⁰/mo

Save 50% for 3 months*

Choose plan

Essentials

~~\$65~~
\$32⁵⁰/mo

Save 50% for 3 months*

Choose plan

Plus

~~\$99~~
\$49⁵⁰/mo

Save 50% for 3 months*

Choose plan

Advanced

~~\$235~~
\$117⁵⁰/mo

Save 50% for 3 months*

Choose plan

STARTER Plan

\$0

Get started now

PRO Plan Recommended

\$16/month
Billed monthly

Get started now

Lots of Choice

	STARTING MONTHLY PRICING	DOUBLE-ENTRY ACCOUNTING	PAYROLL FUNCTIONALITY	TIME-TRACKING	MOBILE APP	RECEIPT SCANNING
 FreshBooks FreshBooks	\$19	Plus version and above (Not Lite)	Additional cost	Yes	Yes	Plus version and above (Not Lite)
 Zoho Books Zoho Books	\$0	Yes	Additional cost	Professional version and above	Yes	Professional version and above
 Intuit QuickBooks Online	\$30	Yes	Additional cost	Essentials version and above	Yes	Yes
 Xero Xero	\$15	Yes	Additional cost	Yes	Yes	Additional cost
 AccountEdge Pro AccountEdge Pro	\$20	Yes	Additional cost	Yes	iOS only	Yes

Other Business Systems

- **Point-Of-Sale System (POS)** – This is the customer payment interface that allows you to collect payments from your customers by a variety of methods.
- **Inventory Management System** – If your business sells a tangible product, you will need to purchase or manufacture that product, stock it, and then sell it. Your Inventory Management System keeps track of this. Manufacturing requires a more robust MRP (Material Requirements Planning) system.

stripe

 Square

 **shopify** POS

 **toast**

 **PayPal**

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...More Business Systems

- **Customer Relationship Management System (CRM)** – A robust database that enables the business to keep track of customer information, interaction, sales, and marketing initiatives. Other software/SaaS may incorporate a “CRM Light.”
- **eCommerce** – Selling your product or service online, including paying, shipping, and taking returns.



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Homework

- Prepare your Chart of Accounts
 - What accounts do you need?
 - What level of Detail?
- Bring your list to the next class or email it to me.

Questions?

And Let's take a break

Timm Johnson
Mason SBDC
10306 Eaton Place, Suite 180
Fairfax, VA 22030
(703) 277-7747
timj@masonsbdc.org

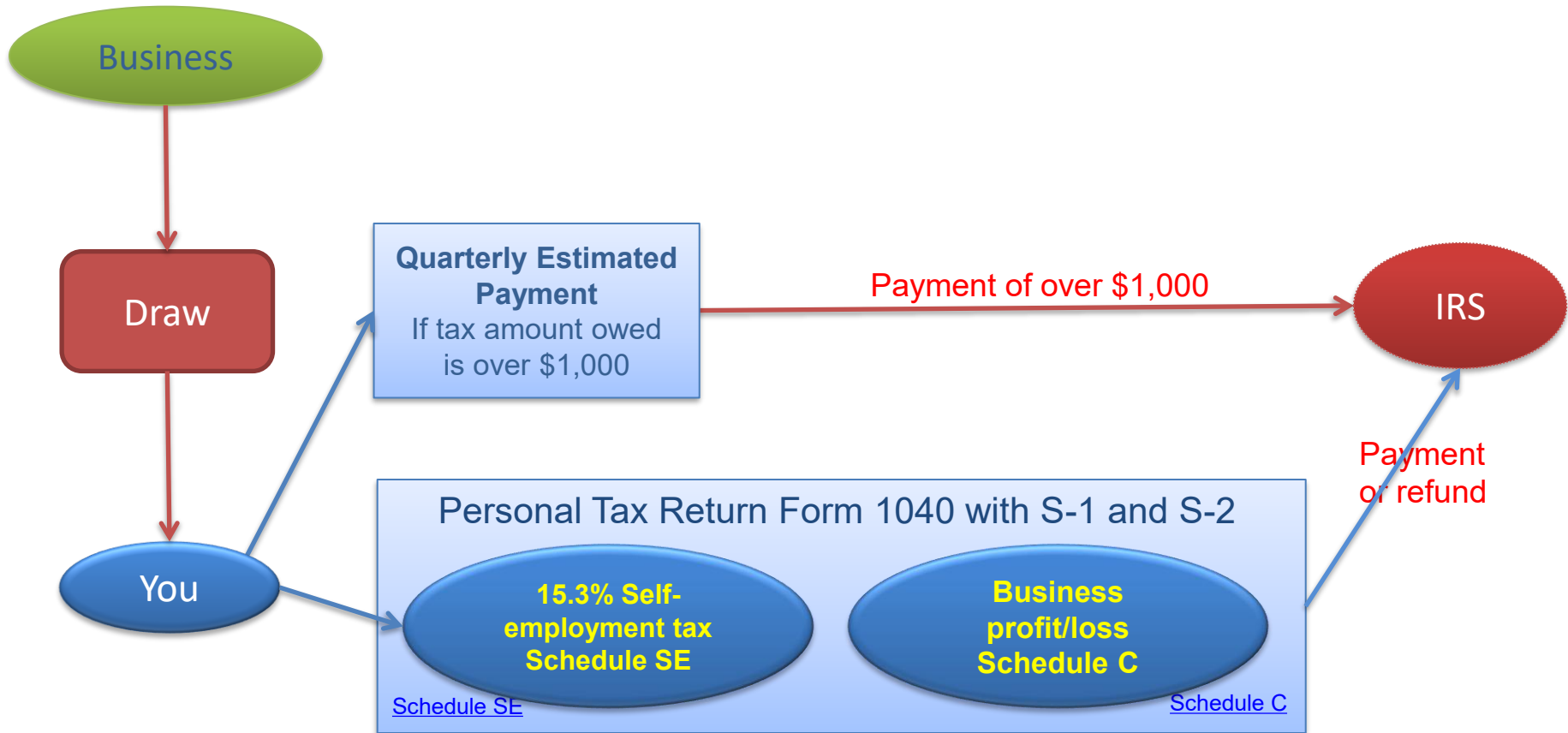
2. Federal Taxes

Federal Taxes

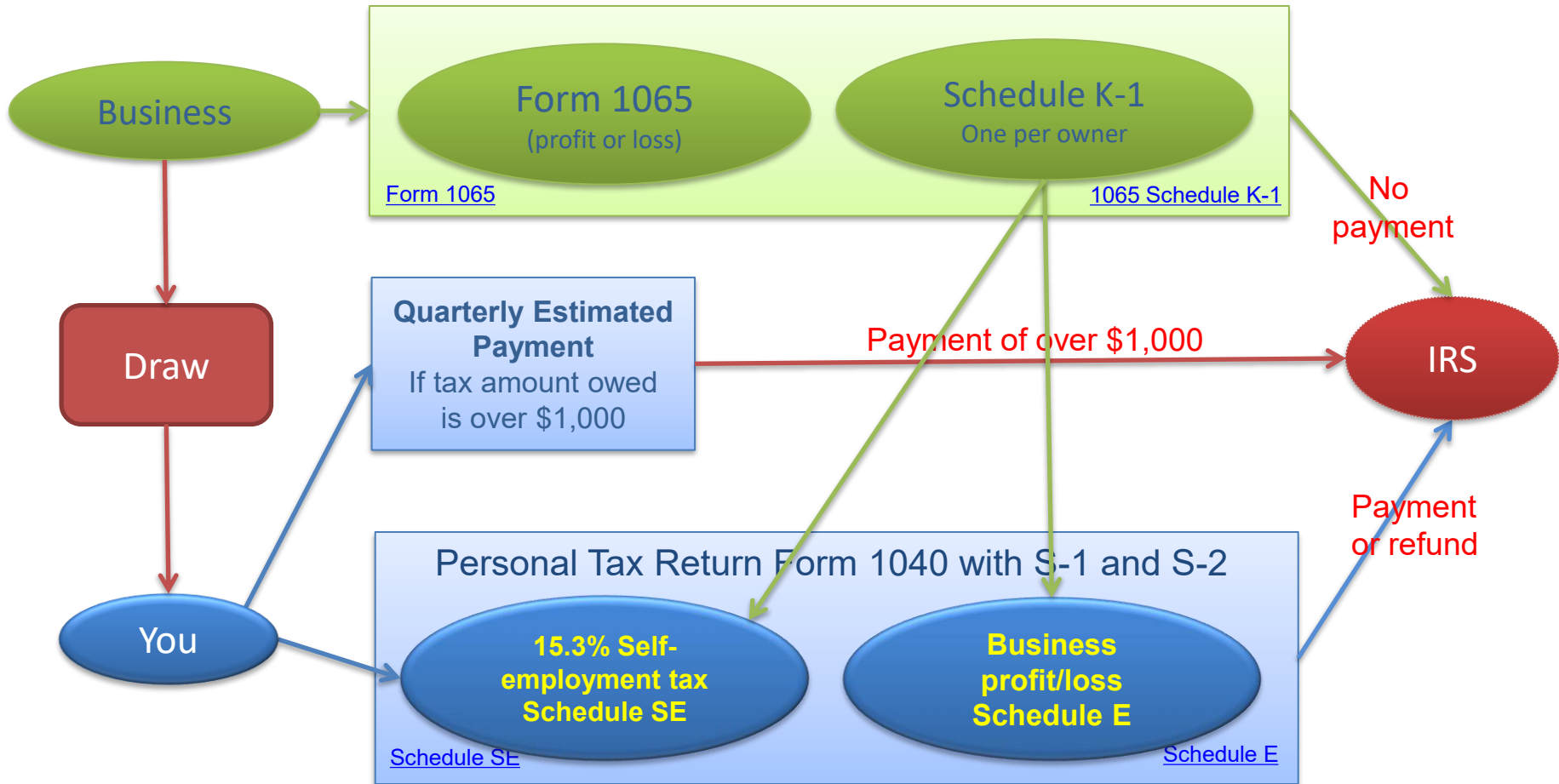
- C-Corp: **double taxation**
 - The company pays income tax on profit, **fixed rate: 21%.**
 - The shareholders pay 15% tax on dividends, **the year the dividends are paid.**
- Sole Proprietor, Partnership and S-Corp: **single taxation**
 - The owners pay income tax on the profit, as regular income, **no fixed rate.**
 - The tax is due **the year the profit is earned.**
 - 20% “Qualified Business Income” deduction on profits < \$100K (with conditions)
 - Sole Proprietors and Partnership members: 15.3% self-employment tax
- Non-taxable retirement savings
 - Sole Proprietors: SEP IRA contributions up to \$69,000/year
 - C-Corp’s and S-Corp’s: 401(k) plan. \$23,500/year employee limit
 - Everybody: Traditional IRA contribution (\$7,000 or \$8,000 if over 59 1/2)

For more details, consult a CPA or tax professional

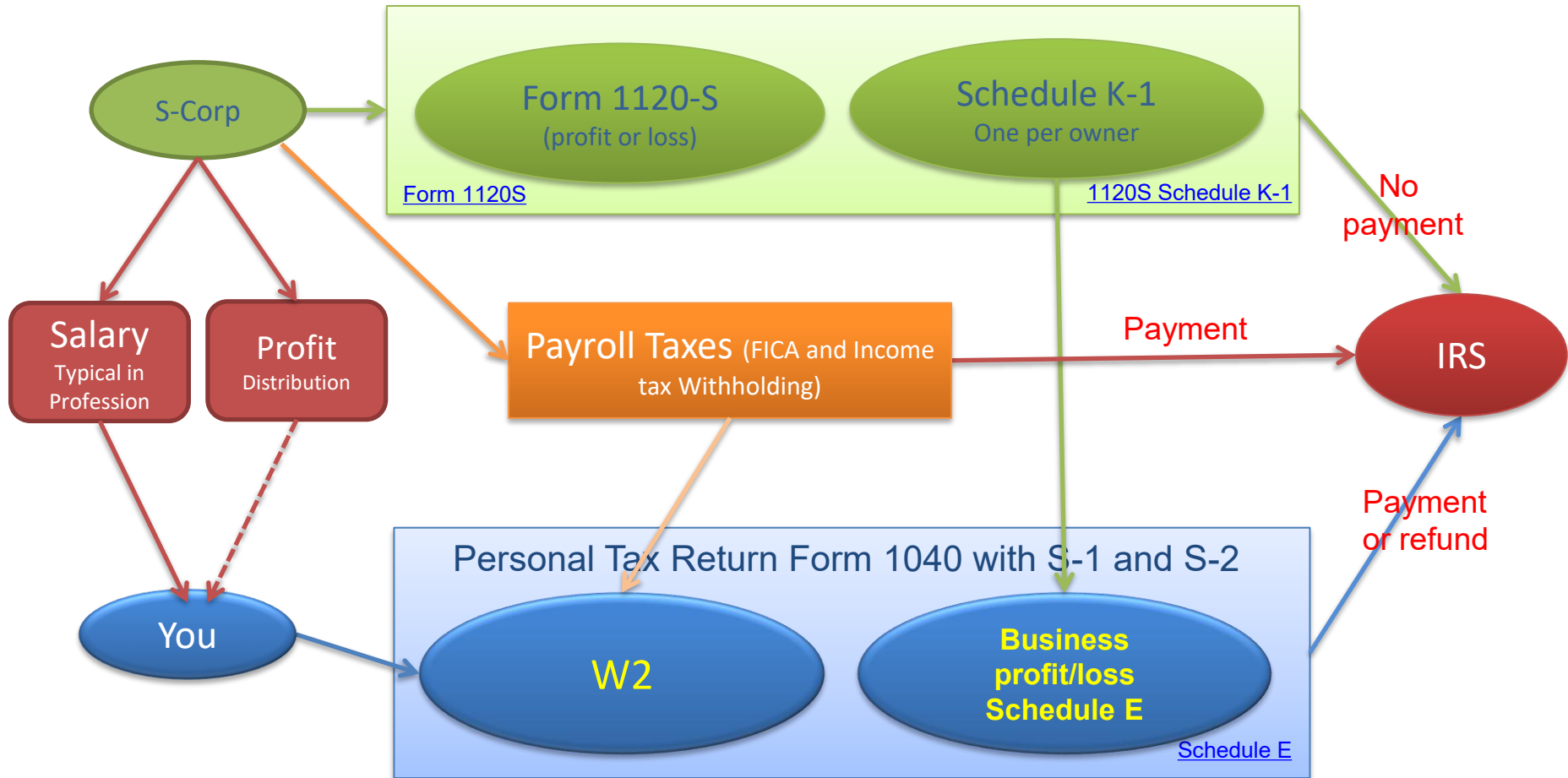
Sole Proprietor Tax Filing



Partnership Tax Filing (Multi-owner LLC)



S-Corp Tax Filing



LLC v. S-Corp worksheet

LLC							
Total Profit		\$25,000		\$40,000		\$100,000	
Self Employment tax	15.30%		\$3,825		\$6,120		\$15,300

S-Corp							
Total profit		25,000		40,000		100,000	
		Salary	Profit	Salary	Profit	Salary	Profit
Salary/Profit split		80%	20%	80%	20%	80%	20%
Salary		\$20,000	\$5,000	\$32,000	\$8,000	\$80,000	\$20,000
State Unemployment Tax	\$400		\$400		\$400		\$400
Federal Unemployment Tax	\$420		\$420		\$420		\$420
SS/MED on salary only	15.3%		\$3,060		\$4,896		\$12,240
Tax Savings			-\$55		\$404		\$2,240
Payroll processing expense			\$200		\$200		\$200
Accounting & tax preparation			\$500		\$500		\$500
Total additional expenses			\$700		\$700		\$700

Actual savings			-\$755		-\$296		\$1,540
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Sole Proprietor Tax Filing

- How you pay yourself
 - NO paycheck, NO W2
 - It's just taking a distribution, or draw, if there's a profit
- Annual filing by LLC: None
- Annual filing by Owners: form **1040**
 - **NO W2**
 - **Schedule C: Profit or Loss from Business**
 - **Schedule SE: 15.3% self employment tax**
 - Schedule 1
 - Schedule 2
 - 1040 Line 13 (Qualified Business Income deduction: 20% of profit under \$100K)
 - Optional tax exempt IRA contribution
- Quarterly filing by Owners: form **1040 ES**
 - Every quarter if tax amount owed is over \$1,000

Partnership Tax Filing (Multi-owner LLC)

- How you pay yourself
 - NO paycheck, NO W2
 - It's just taking a distribution, or draw, if there's a profit
- Annual filing by LLC: form **1065** (partnership return)
 - Profit or loss: revenue minus expenses
 - One 1065 **Schedule K-1 per owner**: share of profit or loss
 - **Due March 15th**
- Annual filing by Owners: form **1040**
 - **NO W2**
 - **Schedule E: amount in K-1**
 - **Schedule SE: 15.3% self employment tax**
 - Schedule 1
 - Schedule 2
 - 1040 Line 13 (Qualified Business Income deduction: 20% of profit under \$100K)
 - Optional tax exempt IRA contribution
- Quarterly filing by Owners: form **1040 ES**
 - Every quarter if tax amount owed is over \$1,000

S-Corp Tax Filing

- How you pay yourself
 - Some profit paid as a **salary** with paycheck, monthly/quarterly payroll taxes, and **W2**
 - Some profit paid as a **distribution**, with no payroll taxes
 - Salary must be “reasonable”, within market range for your profession
- Annual Filing by S-Corp: form **1120-S**
 - Profit or loss: revenue minus expenses, **minus gross salary (W2) and payroll taxes**
 - One 1120S **Schedule K-1 per owner**: share of profit or loss
 - **Due March 15th**
- Annual Filing by Owners: form **1040**
 - **Schedule E: amount from K-1 schedule**
 - Schedule 1
 - Schedule 2
 - 1040 Line 1 : amount in W2, plus other income
 - 1040 Line 13 (Qualified Business Income deduction: 20% of profit under \$100K)
- No Quarterly filing by Owners

LLC vs. S-Corp taxes

What?	LLC	S-Corp
Owners pay	Draw	Reasonable salary
Payroll Taxes	None	7.65% Employee 7.65% Employer
Self Employment tax	15.3% of profit	None
Income Tax based on	Profit minus ½ S/E Tax	W2 + Profit
Quarterly filing	Owner 1040 ES	Payroll taxes 941
Yearly filing	Form 1065	Form 1120-S
Yearly filing	Schedule K-1 (for each owner)	Schedule K-1 (for each owner)
Yearly filing deadline	March 15 th	March 15 th

Virginia & Local Tax Registration

- Virginia Tax ID
 - Payroll taxes
 - VA Dept of Taxation and VA Employment Commission (VEC) [Online Registration](#)
 - Register in every state where your employees live
 - Sales Tax
 - Only on sales of **goods** to Virginia residents
 - Not on services
 - <https://www.tax.virginia.gov/retail-sales-and-use-tax>
- Virginia Professional Licenses
 - <http://www.dpor.virginia.gov/ProfessionsAndOccupations/>
- County or City Licenses and Permits
 - Business license & tangible property tax: [Loudoun](#)
 - Home occupation Permit

3. Basic Management

Employees or Contractors?

- Full-time or part-time employees (W2)
 - Offer letter signed by you and employee with terms of employment
 - Federal legal employment [verification](#)
 - Employee income tax withholdings – [federal](#) and [state](#)
 - Unemployment tax – federal and state
 - Payroll: use a payroll service (QuickBooks, ADP, Paychex, Sure Payroll, Patriot Payroll, Square)
- Independent Contractors (1099)
 - Have them sign a contract: description, schedule and payments
 - Make sure you create an invoice for every payment
 - File Federal and State year-end form 1099
 - **Some very strict restrictions, including:**
 - **They must not use any company property (equipment or intellectual property)**
 - **You are not supervising them**

The IRS is very strict about independent contractors
Do your research to avoid heavy penalties

Business Insurance

- General liability insurance
 - Required for most businesses
 - \$1 or \$2 million coverage
- Professional/Errors and Omissions (E & O)
- Property insurance
 - Real estate property
 - Equipment, vehicles, inventory
- Workers' compensation insurance
 - Required by law as soon as you have 1 employee or contractor
 - Covers employees' workplace injuries
- Personal Car Liability
- Commercial Insurance Companies
 - The Hartford, Travelers, Farmers, Progressive, GEICO

Get quotes from 3 companies

Personal and Home Office Expenses

- Use of your personal car
 - Must be for legitimate business purpose
 - Log book with date, mileage where and why
 - Amount allowed by IRS for 2024: [67 cents/mile](#)
 - Look at actual auto expenses as an alternative deduction
- Home office expenses ([IRS info](#))
 - **Exclusive** use of a portion of your home: \$5/year per Sq Ft (up to 300 Sq Ft)
 - Part of your Internet cost
 - Part of your Cell/Telephone cost
 - Must have a dedicated office (not your guest bedroom)
- Professional: training, certifications, subscriptions, licenses
- Travel Expenses – Business Trip Meals can be deducted at cost

Other Tax Tips

- Use an expense report to capture business expenses paid personally
- Maximize retirement payments – 401K or SEP IRA
- Pay for Health Insurance through the company and other similar benefits
- At the end of the year, pay bills early, slow down client invoicing

Improving your collections

- What are your payment terms?
- Consider taking credit cards for payment
- Insure invoices are accurate and have the appropriate supporting documentation
- Ask the A/P contact if all of the paperwork has been received and you are scheduled to receive payment on the due date

Improving your collections

- Look at credit worthiness of new customers and require upfront payments if needed
- Offer early payment discounts and volume/multi-year discounts
- Follow up on the delinquent clients – be respectful but persistent

Questions?

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