



TL;DR: Accounting

Taxes and accounting made simple

Topics in this Guide:

Bookkeeping Solutions

Saving for Retirement

1099-Misc and who you need to file them for

State & Local Taxes



TL;DR: Accounting
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Bookkeeping: What Should I Be Keeping Track Of?

As a small business owner, should you be keeping records or copies of:

- Receipts?
- Bank statements?
- Everything?
- Nothing?

The answer is: all of the above. You should be keeping any receipts, copies of your bank and credit card statements, and any information that will be used to prepare your tax returns. All of the above should be kept for 3 years.

What is Bookkeeping?

Bookkeeping is the *keeping* of a business's financial records. It involves keeping track of your income, expenses, receipts, and balances in all of your accounts.

When we advise clients to follow proper bookkeeping procedure, they often ask:

- What is the easiest way to keep track of things?
- Do I need to get Quickbooks?
- I have a practice management software — that's enough, right?

The type and size of your business dictates what specific bookkeeping and accounting system I recommend you put in place.

Before recommending a system, I typically ask questions such as:

- How many transactions a month do you have?
- Do you have a practice management system like SimplePractice?
- Are you keeping your receipts?
- Do you like DIY recordkeeping or do you hate manually recording transactions?



TL;DR: Accounting

Taxes and accounting made simple

We recommend that you put a system in place to help you keep track of all of the above. It can be as simple as saving photos of receipts in a Drive folder and updating your Excel sheet each month. It can also be as automated as taking pictures of a receipt using an app that connects to QBO so it pulls a copy into your Quickbooks file before working through your income and expense items each month.

When you are just starting your practice, using the Excel sheet to record your transactions works well since you tend to have more time to do things related to data entry. I also always recommend keeping copies of your receipts for business expenses for up to three years after we file your tax return.

Boom — there is an accounting system for you.

You might be thinking, “well that sounds like more work than I want to do.”

If so, we do offer some alternatives:

[1Tap - \\$45/year](#)

This lets you take pictures of your receipts and then creates a spreadsheet for you. When you take the picture, the software asks what type of expense it is. This is super handy for those who don't want to do a ton of data entry or go the Quickbooks route. We have a firm license for this software so we offer it to our clients at \$45/year.

[Quickbooks Online - Monthly fee \\$20-25/mo](#)

We recommend Simple Start for small businesses. It connects with your bank account and pulls transaction info automatically. You will need to classify each expense, but then you will be able to pull reporting to track your business expenditures and goals.

The above includes only a few options that are easily available.

TL;DR: The default answer is yes you should keep a copy of that. Setting up a recordkeeping system is an important step for your business.



TL;DR: Accounting
Taxes and accounting made simple

Saving for Retirement

What Retirement Accounts are Available for Someone Who is Self-employed or a Small Business Owner?

Well...it depends (you knew that was coming right?).

Before giving an answer, I always ask:

- How many employees do you have?
- Are you an S-Corporation?
- How much do you want to contribute to your retirement accounts?
- Do you want as simple a solution as possible?

Three types of accounts work best for small business owners or freelancers:

- Simplified employee plan (SEP) IRA
- Solo 401(k)
- Simple IRA



TL;DR: Accounting

Taxes and accounting made simple

	SEP IRA	Solo 401(k)	Simple IRA
Who can contribute	Business	Business & Employee	Business & Employee
Max Business Contribution:	20% of SE income*, 25% of compensation, or up to \$55,000	20% of net earnings from SE, 25% of compensation	Flat 2% of compensation or 3% match
Max Employee Contribution	N/A	\$18,500	\$12,500
Total Max Contribution	\$55,000	\$55,000	It depends on Compensation
Roth Available	N/A	Yes	N/A
Setup	Easy	Moderate	Easy
Filing requirements	N/A	After plan has \$150,000	N/A

**less half of your self-employment tax*

What does this chart mean?

A SEP IRA is very similar to a regular IRA. The contributions come from the **business only**; there are no employee contributions. If you are self-employed, your contribution is 20% of your business net income, and if you are an S-Corporation, your contribution is 25% of your compensation. A SEP IRA tends to be a great plan for a small business owner with no employees.

A Solo 401(k) is similar to a 401(k) offered from an employer. You can make contributions from your paycheck and the business can make contributions as well. A Solo 401(k) does have filing requirements once the plan gets big enough. The “solo” part of a Solo 401(k) is because the plan only works if you don’t have employees.



TL;DR: Accounting

Taxes and accounting made simple

If you *do* have employees, a Simple IRA is a very straightforward plan that offers two options: a flat 2% of compensation or a 3% match of compensation.

So, what retirement account is right for me?

Most of our small business clients who have no employees tend to use SEP IRAs. Our small business owner clients who do have employees usually use Simple IRAs.

TL;DR: Going with a SEP-IRA account for your first year is an easy to use choice.



TL;DR: Accounting
Taxes and accounting made simple

Who do I need to file a 1099-Misc for?

Have you paid anyone over \$600 for a service? Then you probably need to issue them a 1099.

Let's talk about best practices.

BEFORE you pay someone for service — say editing or supervision services — you should request a W-9 from them. A W-9 will include a contractor's Name/Company name, Address, SSN/EIN, and the type of entity they are.

This information is needed to provide a 1099-Misc to someone if it is required.

But when do you need to issue a 1099-Misc?

When:

- You've paid someone over \$600
- The payment was to an individual or an entity that is not incorporated (Answering this question is why a W-9 is important.)

If either of the above cases is true, filing a form 1099-Misc is required.

What if I Forgot or Didn't Know to Ask a Service Provider for a W-9?

Ask them for a W-9 now. Doing so as early as possible will give you a head start since 1099-Misc are due January 31st, 2019. That means you have 30 days from the end of the year to file them.

If you do not want to file a 1099-Misc, we are very happy to do so on your behalf. To file your 1099-Miscs, we will need the name and email address of every service provider you've



TL;DR: Accounting

Taxes and accounting made simple

hired, as well as the amount paid to them. If you have their W-9s already, we can process them on your behalf.

TL;DR: If you paid someone over \$600, you need to get a W-9 from them. Start collecting W-9 forms ahead of time — they're due to the IRS by January 31st, 2019.



TL;DR: Accounting

Taxes and accounting made simple

State & Local B&O Taxes

A business registration is a simple form to license your business with the state. Various states require this at different asset or income levels. Washington State does not have an income tax, but it does have Business & Opportunity (B&O) tax.

Step one is registering your business with the Department of Revenue (DOR). The DOR will send you information on Washington B&O taxes in a nice booklet, though it is a bit long. I've provided the main gist of information here:

Washington B&O Tax is based on the classification of your business. The common ones are the following:

B&O Classification Tax Rate for Therapy Practice: Services & Other Activities: .015

There are also a few different credits that are available. One is a [small business credit](#), which is based on how much B&O tax you owe. There are tables to calculate this, but if you are filing electronically it automatically calculates this. I do recommend electronically filing as it simplifies the process.

Example time: Your practice made \$50,000 of gross income this year. You are a small business and get the small business credit. The tax calculation is simple:

$$50,000 \times .015 = \$750$$

Based on the table the small business credit is \$750, so you won't owe any B&O tax for Washington State.

Now, let's say your business grows to \$100,000 in gross income. The new tax calc is:

$$100,000 \times .015 = \$1,500$$

Based on the table the small business credit is \$150, so your tax is \$1,350.



TL;DR: Accounting

Taxes and accounting made simple

Local B&O Taxes

The State isn't the only one with B&O taxes – most of the cities requires them as well. If you do business in Seattle, you must have a Seattle Business license and file the business license tax return, which is the B&O tax. Almost all of the cities have moved to filing local B&O on <https://www.filelocal-wa.gov> this is the same place that you had to file for your city business licenses as well.

TL;DR: You have to register your business and pay taxes at 3 levels: Federal, State, and City