

BOOKKEEPER SCHOOL

PRE-QB

HOW TO SAVE TAX DOLLARS



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Part 2

CHART OF ACCOUNTS

Subaccount

Business Expenses need to be both ordinary and necessary

Items and Services

Story

Accounts Payable

Accounts Receivable

Call QuickBooks

♥ Rules of Thumb ♥

What is an expense?

Before you can start entering things into any accounting system, such as QuickBooks, you will need to know what you can and cannot enter.

Ordinary and Necessary

The IRS has decided that a business expense needs to be ordinary or necessary.

That is a very broad definition of a business expense.

♥ Is it ordinary to your type of business?



♥ Is it necessary for you to do business?

First off, everyone gets the definition of ordinary and necessary, correct?

Massage therapists would be able to expense the laundry for the sheets they lay their clients on. This is ordinary and necessary expense for a massage therapist.

Mobile Notary workers would be able to expense the business use of the car.

They would use a mileage log, actual expenses with a percentage of personal use, or actual expenses 100% business use; depending.

When an accountant says it depends, it truly depends on several factors. There needs to be an entire picture surrounding the situation for there to be a solid answer from an accountant.

The above mobile notary “it depends” would depend on:

1) How you recorded the 1st year the car is used for business,

- a) Standard Mileage means using a log to record your mileage, or Actual Expenses using receipts.
- β) If you used Standard Mileage (recording it in a log), then you have the option of switching back and forth for whichever gives you the higher deduction.
- γ) If you took Actual Expenses, then you have to continue using receipts the entire time this car is in the service of that business.

Lawyers would expense the bar association dues and the continuing education they are required by law to take.

Each business will have different ordinary and necessary expenses.

What is necessary and ordinary...

Pens and paper are obvious necessities to an office, but what about those people that are mobile and do not have an office and truly only use technical devices?

♥ Was it for business?

If you can answer yes to this question, then it counts as a business expense.



With these really broad definitions of ordinary and necessary, I feel the need to discuss several specific items.

Office Expenses versus Office Supplies

Office Supplies are literally the things necessary to doing business.

- ♥ Pens
- ♥ Paper
- ♥ bottles of water
- ♥ coffee
- ♥ tea
- ♥ snacks, such as fruit, power bars, or junk food (Staples sells junk food)

Office Expenses are what I like to refer as the things that make doing business easier. I like to use this as my “Miscellaneous”, for things when I don’t know where else to put them.

- ♥ Office decorations
- ♥ Delivery services such as the water
- ♥ Membership fees such as Sam’s Club or Costco
- ♥ Shredding services
- ♥ The things you don’t know where else to put
- ♥ Flowers for the office
- ♥ Services for watering the plants or feeding the fish at the office

List of How to Save Money

Let's talk about what is not obvious and is still deemed ordinary and necessary.

- ♥ H.S.A.
- ♥ Travel
- ♥ Bonuses
- ♥ Inventory
- ♥ Education
- ♥ Distributions
- ♥ Auto Deduction
- ♥ Charitable contributions
- ♥ Retirement contributions
- ♥ Meals and Entertainment
- ♥ Rent your house up to 15 days
- ♥ Payroll into college 529 or Retirement
- ♥ Medical for you and kids up to the age of 27

(Isn't this list so pretty in this order, we will be discussing it out of order.)

♥ H.S.A. or F.S.A.

A Health Savings Account (H.S.A.) and a Flexible Spending Account (F.S.A.) are tax free dollars spent on health.

These might become less attractive as the new law passed stating as of 2016, Sole Proprietors can expense their medical for themselves and their children up to the age of 27. Which is a reason many Sole Proprietors had previously paid the \$800 to become an S Corporation. S Corporations can just hire their family and expense their medical through the company.

But not everyone is a Sole Proprietor, and literally anyone can take advantage of an H.S.A. If offered through their place of employment, an F.S.A.

A Health Savings Account (H.S.A.) is tax free money put into a bank account specifically used for medical expenses. This money does not need to be used in a specific time frame, and can be used on any member of the family. The limit to how much you can put into this account in 2017 is \$3,400 for an individual, or for the family it's \$6,750. If you are 55 or older there is an additional \$1,000 allowed.

Flexible Spending Account (F.S.A.) is done through an employer program, and has a limit of \$2,600 in 2017. FSA dollars are generally taken from the paycheck before taxes are taken out. The money needs to be used in the year taken from paycheck (unless the \$500 roll over to the next year rule applies to your specific policy). The FSA can also be used for eligible dependents. As this is done through an employer program, there will be specifications.

Sole Proprietors as of 2016 can now deduct up to 100% of health insurance premiums for themselves and dependents under the age of 27. This also includes chiropractors, psychologists, acupuncture, insulin, false teeth,

eyeglasses or contact lenses, hearing aids, the transportation to receive medical care, and long-term care insurance...just to rattle off a few. The list goes on, and there are some “it depends” in there of course.

The biggest “it depends” on the Sole Prop medical expenses is the floor. There used to be a minimum of 10% of your income needed to be medical expenses before you could deduct any medical expenses (7.5% for 55+). Now the rule is the medical expenses are not covered if your company has a loss.

To put it clearer, your medical expenses cannot bring you below \$0. If you have a net profit, then you may deduct 100% of health insurance premiums and other qualified medical expenses.

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