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Top 7 Mistakes Made by Entrepreneurs and Small Businesses:

Choosing the wrong business entity structure. Work with a qualified tax professional to decide what works for you and ensure the correct tax forms are completed.

Entering the wrong business classification code or 99999 on Schedule C. This can further increase your chances of audit. Take the time to select the classification code that is most appropriate for your business.

Misclassifying workers. This can lead to audit issues and payroll tax penalties. Issue a W-2 for every employee. If you paid anyone \$600 or more during the year, you might need to issue IRS Form 1099-MISC to individuals and businesses. The IRS, WA Dept of L&I, and other agencies provide guidelines to help you decipher if your worker is an employee or an independent contractor.

Co-mingling business and personal funds. Keep your business and personal finances separate to avoid the IRS from questioning the integrity of the business entity or the transactions. The benefits of setting up a business entity to protect you from personal liability can be lost if so. Maintain separate checking and credit card accounts for your business to avoid tax and legal trouble.

Poor record-keeping. In preparing a proper tax return, you need accurate records of your books. Save receipts, deposit slips, invoices, bank statements and other documentations to show your income and expenses. Use a good accounting software to record your income and expenses.

Missing tax deductions and credits. Maintain accurate records to avoid losing out on important tax deductions. In claiming the home office deduction, there are two ways to compute home office expenses: 1) actual expenses vs. 2) IRS simplified rate. Additionally, there are two ways to compute auto expenses: 1) actual expenses vs. 2) allowable mileage allowance for each vehicle.

Failure to pay and/or file on time. Forgetting about tax deadlines or not having the funds to pay your taxes may lead to penalties that will accrue until a return is filed and paid. Don't panic. Ask for an extension to file and pay as much as you can with your tax return to reduce the late payment fees and interest. Ask a qualified tax professional to help you set up a payment plan with the IRS.



Quick tips:

- Make sure employees are not being paid as contractors.
- Keep business and personal finances separate.
- Report all income on your tax return.
- Keep detailed, accurate books and records.
- Seek a qualified tax professional such as an EA or CPA to plan ahead before tax season.



About Lily Tran, EA, founder and owner

Lily is an Enrolled Agent (EA) admitted to practice and to represent taxpayers before the IRS for audits, collections and appeals. As owner of virtual tax firm, TaxUSign, she provides bookkeeping, taxes, and representation services to individuals and small business clients across the US.