

# 9 tax tips for the self-employed

Jeff Reeves, Special to USA TODAY 6:02 a.m. EST February 28, 2015



(Photo: Thinkstock)

According to the Bureau of Labor Statistics, there were some 815,000 self-employed Americans (<http://www.bls.gov/news.release/pdf/empsit.pdf>) at the end of 2014.

One of the biggest perks of the job is the self-determination that comes from being your own boss.

But one of the biggest downsides for many is that, in addition to doing what you love, you have to do a lot of other stuff that goes into running a business — including playing the role of tax accountant.

Thankfully, the Internal Revenue Service has made it easier to unlock valuable tax deductions for self-employed Americans who keep good records and know what forms to file.



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If you run your own small business, here are nine key tax tips that can help you come tax time:

**Tap the Home Office Deduction.** Many self-employed people work out of their homes, and a home office deduction can unlock big tax breaks — including writing off a percentage of your utilities or property taxes. However, some taxpayers are reluctant to do so for fear it will require an in-home visit from the tax man.

Thankfully, "it is not a red flag for an IRS audit," says [Monica Rebella](#), a certified public accountant based in California. "In fact, the IRS has come up with a simplified method for taking the home office deduction for businesses."

That simplified format allows you to write off \$5 per square foot of office space up to 300 square feet without itemizing a percentage of every utility bill or other complicated math. But, Rebella warns, just make sure your space is exclusively used as an office before you take the deduction. That means no claiming that the kitchen table is your "desk."

**It Pays to Save.** Joseph Heider, a financial adviser and president of Cirrus Wealth Management in Cleveland, notes that saving for retirement is tax deductible — and is one of the few opportunities to save on your taxes even now [that we've](#) turned the calendar on 2014.

"If the small business has a retirement plan, they may deduct contributions up until ~~the~~ the time they file their tax returns," he notes. Through options such as a Simplified Employee Pension plan, small-business owners and the self-employed can save up to 25% of net earnings, and then deduct that amount on their taxes.

**If it's Business-Related, It's Deductible.** If you're a Web programmer, clearly your laptop is a qualified business expense. But don't overlook everything else that goes into running your business, including subscriptions to trade publications or even fruit baskets sent to your best clients. Rebella said gifts have a maximum of \$25 per person per year, but that can still add up in a hurry.

The exact guidelines from the IRS describe deductible business expenses as "ordinary and necessary," so don't be afraid to claim an expense if it was directly related to the operation of your business — and, of course, as long as you have the receipt to prove it.

**Cash Counts.** "I find that business owners pay for business expenses with cash but forget or lose the receipts and miss thousands of dollars in tax deductions," said Rebella. She points to business lunches, tolls between appointments and postage just a few deductible expenses that are all qualified expenses you can deduct on your business taxes.

If you lost the receipts, unfortunately the ship has sailed on your 2014 deductions, she said. But if that's the case, make sure you put an envelope in your glove compartment ASAP as a catch-all for this year's receipts so you don't miss out on eligible 2015 deductions next year.

**Name Your Kids as Employees.** Do you pay your teenage son a few bucks to help with filing and mailing documents, or does your daughter run the lawnmower for your landscaping biz on weekends? If so, you may want to officially put them on your payroll instead of just giving them an allowance for their work, because those payroll expenses could bring down your overall tax burden as a business.

Even if little Johnny or Suzie has to pay some local taxes or makes enough money that they surpass federal exemptions for low earners, your child's overall effective tax rate will almost certainly be lower than yours had you kept the cash.

**Deduct Your Health Insurance.** Being self-employed means no corporate entity providing cushy benefits. But the good news is that if you have taken the trouble to find your own health insurance, you are eligible to deduct the full cost in many cases on your personal tax returns.

This also goes for employees you pay insurance premiums for, too, so if your kids or spouse are on the payroll you can also write off their benefits as well as any pay.

**Be Diligent About Income.** One of the biggest red flags to trigger an IRS audit is if a contractor or customer reports a transaction with you, but you fail to do the same on your tax returns. It's crucial you keep accurate records of your true income and track down the relevant 1099s if they haven't been mailed out to you. And it sounds like a no-brainer, but don't forget to double check you included all documents and check your math on the forms themselves.

**Don't Overlook Bad Debt.** Have you finally given up on chasing down a customer who skipped out on their bill? Well, while the lost revenue for your home business is obviously a bad thing, the good news is that the IRS allows you to deduct a bad business debt in the year it becomes worthless.

As long as you have documentation, including a copy of the original transaction and any letters or e-mails you sent in an attempt to collect, Uncle Sam will help make up for your lost business with a tax break.

**Confused? Then Write Off Tax Preparation.** If you're intimidated by the minutiae of tax law or if you just want to go to a professional to see what other deductions you're eligible for, you're in luck. The IRS allows tax-preparation expenses, as well as other professional legal and accounting services, to be deducted as a qualified business expense. So don't just wing it — because there's no reason not to get the help you need when preparing your 2012 taxes.

*Jeff Reeves is the editor of InvestorPlace.com and the author of The Frugal Investor's Guide to Finding Great Stocks.*

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