Build a Successful Notary Business by Understanding Your Taxes

Presented by David M. Green E.A. CNSA
Build a Successful Notary Business by Understanding Your Taxes

• David M. Green E.A., I own David M Green Bookkeeping and Tax Service. This workshop will cover tax planning before your Notary business starts and provide details on: getting an EIN Number, forming a LLC, tax entities as Sole Proprietor, Partnership, S-Corporation and Tax Planning for each tax entity. Be in control of your business from the start by understanding all of your tax options.

• Learn the differences of Sole Proprietor, Partnership, and S-Corporation when it comes to your taxes

• Understand the requirements when setting up payroll and paying payroll taxes

• Discover which tax entity is best for you and your company
Choosing Your Business Name

Choosing a business name is an important step in the business planning process. Not only should you pick a name that reflects your brand identity, but you also need to ensure it is properly registered and protected for the long term.
Choosing Your Business Name

Check for Trademarks

Trademark infringement can carry a high cost for your business. Before you pick a name, use the U.S. Patent and Trademark Office’s trademark search tool to see if a similar name, or variations of it, is trademarked.
Chose Your Business Name

If You Intend to Incorporate
If you intend to incorporate your business, you’ll need to contact your state filing office to check whether your intended business name has already been claimed and is in use. If you find a business operating under your proposed name, you may still be able to use it, provided your business and the existing business offer different goods/services or are located in different regions. Also many states require you to register your business name if the name is fictitious.
Apply for an Employer Identification Number (EIN) Online

You can apply for a EIN Number Online through the following email address

Breakdown of Business Tax Entities
Sole Proprietor

A sole proprietorship is the most basic type of business to establish. You alone own the company and are responsible for its assets and liabilities.
Forming a Sole Proprietorship

No formal action is required to form a sole proprietorship. If you are the only owner, this status automatically comes from your business activities. In fact, you may already own one without knowing it. If you are a Notary Signing Agent, for example, you are a sole proprietor. But like all businesses, you need to obtain the necessary licenses and permits. Regulations vary by industry, state and locality. If you choose to operate under a name different than your own, you will most likely have to file a fictitious name (also known as an assumed name, trade name, or DBA name, short for "doing business as").
Schedule C

<table>
<thead>
<tr>
<th>A</th>
<th>Business name or description</th>
<th>B</th>
<th>Gross profit from business (line 4 less line 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Clerk</td>
<td>2</td>
<td>Secretary</td>
</tr>
<tr>
<td>2</td>
<td>Engineer</td>
<td>3</td>
<td>Architect</td>
</tr>
<tr>
<td>3</td>
<td>Other (specify)</td>
<td>4</td>
<td>Business address including suite or room no.</td>
</tr>
</tbody>
</table>

Part I: Income

1. Gross receipts or sales (line 1 and check the box if this income was reported to you on Form W-2 and the "Employer's copy" box on that form was checked.)
2. Sales returns and allowances (line 1 and line 6 or 7)
3. Net sales (lines 1 and 2)
4. Gross profit (line 1 less line 4)
5. Subtract line 4 from line 3

Part II: Expenses

6. Advertising (see instructions on line 5 and 6)
7. Office expenses (see instructions on line 5 and 6)
8. Repair and maintenance (see instructions on line 5 and 6)
9. Supplies (see instructions on line 5 and 6)
10. Depreciation and amortization (see instructions on line 5 and 6)
11. Travel, meals, and entertainment (see instructions on line 5 and 6)
12. Taxes (see instructions on line 5 and 6)
13. Total expenses (line 5 and 6)

Part III: Net Profit or Loss

14. Net profit or loss (line 9 less line 10)
Sole Proprietor Taxes
You and your business are one and the same, the business itself is not taxed separately – the sole proprietorship income is your income.

Income Tax Self Employment Tax (Social Security and Medicare taxes) Quarterly Estimated Tax Payments (a pay-as-you-go tax) Employer Tax (such as withholding tax)
Advantages of a Sole Proprietorship

1. Easy and inexpensive to form:
2. A sole proprietorship is the simplest and least expensive business structure to establish.
3. Complete control. Because you are the sole owner of the business, you have complete control over all decisions.
4. Simplified tax preparation.- Schedule C-EZ Schedule C
5. Your business is not taxed separately, so it’s easy to fulfill the tax reporting requirements.
Disadvantages of a Sole Proprietorship

1. Unlimited personal liability. Because there is no legal separation between you and your business, you can be held personally liable for the debts and obligations of the business.

2. This risk extends to any liabilities incurred because of employee actions.

3. Hard to raise money. Sole proprietors often face challenges when trying to raise money.

4. Banks are also hesitant to lend to a sole proprietorship because of a perceived lack of credibility when it comes to repayment if the business fails.

5. Heavy burden. You alone are ultimately responsible for the successes and failures of your business.

6. Self Employment Taxes- (SE tax) is a Social Security and Medicare tax primarily for individuals who work for themselves. Typically Estimated Tax Payments can be up to 25% of net income based on other income you have on a individual basis.
Limited Liability Company

A limited liability company (LLC) is a hybrid type of legal structure that provides the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership.

The "owners" of an LLC are referred to as "members." Depending on the state, the members can consist of a single individual (one owner), two or more individuals, corporations or other LLCs.
Steps to Forming a LLC
Choose a Business Name. There are 3 rules that your LLC name needs to follow: (1) it must be different from an existing LLC in your state, (2) it must indicate that it's an LLC (such as "LLC" or Limited Company") and (3) it must not include words restricted by your state (such as "bank" and "insurance"). Your business name is automatically registered with your state when you register your business, so you do not have to go through a separate process.
File the Articles of Organization. The "articles of organization" is a simple document that legitimizes your LLC and includes information like your business name, address, and the names of its members. For most states, you file with the Secretary of State. However, other states may require that you file with a different office such as the State Corporation Commission, Department of Commerce and Consumer Affairs, Department of Consumer and Regulatory Affairs, or the Division of Corporations & Commercial Code.
Create an Operating Agreement. Most states do not require operating agreements. However, an operating agreement is highly recommended for multi-member LLCs because it structures your LLC's finances and organization, and provides rules and regulations for smooth operation. The operating agreement usually includes percentage of interests, allocation of profits and losses, member's rights and responsibilities and other provisions.
Obtain Licenses and Permits. Once your business is registered, you must obtain business licenses and permits. Regulations vary by industry, state and locality. Announce your business. Some states, including Arizona and New York, require the extra step of publishing a statement in your local newspaper about your LLC formation. Check with your state's business filing office for requirements in your area.
LLC Tax Obligations

In the eyes of the federal government, an LLC is not a separate tax entity, so the business itself is not taxed. Instead, all federal income taxes are passed on to the LLC's members and are paid through their personal income tax. While the federal government does not tax income on an LLC, some states do, so check with your state income tax agency.

Since an LLC is not recognized as a business entity for taxation purposes, all LLCs must file as a corporation, partnership, or sole proprietorship tax return. Certain LLCs are automatically classified and taxed as a corporation by federal tax law.
Form 8832 Entity Classification Election

Need to file IRS Form 8832 to officially classify LLC as an official tax entity.
Advantages of an LLC

Limited Liability

Members are protected from personal liability for business decisions or actions of the LLC. This means that if the LLC incurs debt or is sued, members' personal assets are usually exempt. This is like the liability protections afforded to shareholders of a corporation. Keep in mind that limited liability means "limited" liability - members are not necessarily shielded from wrongful acts, including those of their employees.

Less Recordkeeping. An LLC's operational ease is one of its greatest advantages. Compared to an S-Corporation, there is less registration paperwork and their start-up costs are lower.

Sharing of Profits. There are fewer restrictions on profit sharing within an LLC, as members distribute profits as they see fit. Members might contribute different proportions of capital and sweat equity. Consequently, it's up to the members themselves to decide who has earned what percentage of the profits or losses.
Disadvantages of an LLC

Limited Life. In many states, when a member leaves an LLC, the business is dissolved and the members must fulfill all remaining legal and business obligations to close the business. The remaining members can decide if they want to start a new LLC or part ways. However, you can include provisions in your operating agreement to prolong the life of the LLC if a member decides to leave the business.

Self-Employment Taxes. Members of an LLC are considered self-employed and must pay the self-employment tax contributions towards Medicare and Social Security. The entire net income of the LLC is subject to this tax.
Partnerships
Form 1065 Partnership Tax Form
Partnership

A partnership is a single business where two or more people share ownership.

Each partner contributes to all aspects of the business, including money, property, labor or skill. In return, each partner shares in the profits and losses of the business. Because partnerships entail more than one person in the decision-making process, it’s important to discuss a wide variety of issues up front and develop a legal partnership agreement. This agreement should document how future business decisions will be made, including how the partners will divide profits, resolve disputes, change ownership (bring in new partners or buy out current partners) and how to dissolve the partnership. Although partnership agreements are not legally required, they are strongly recommended and it is considered extremely risky to operate without one.
Types of Partnerships
There are three general types of partnership arrangements:

General Partnerships assume that profits, liability and management duties are divided equally among partners. If you opt for an unequal distribution, the percentages assigned to each partner must be documented in the partnership agreement.

Limited Partnerships (also known as a partnership with limited liability) are more complex than general partnerships. Limited partnerships allow partners to have limited liability as well as limited input with management decisions. These limits depend on the extent of each partner’s investment percentage. Limited partnerships are attractive to investors of short-term projects.

Joint Ventures act as general partnership, but for only a limited period of time or for a single project. Partners in a joint venture can be recognized as an ongoing partnership if they continue the venture, but they must file as such.
Forming a Partnership
To form a partnership, you must register your business with your state, a process generally done through your Secretary of State’s office.

You’ll also need to establish your business name. For partnerships, your legal name is the name given in your partnership agreement or the last names of the partners. If you choose to operate under a name different than the officially registered name, you will most likely have to file a fictitious name (also known as an assumed name, trade name, or DBA name, short for "doing business as"). Once your business is registered, you must obtain business licenses and permits. Regulations vary by industry, state and locality.
A partnership must file an annual information return Form 1065 to report the income, deductions, gains, losses, etc., from its operations, but it does not pay income tax. Instead, it "passes through" any profits or losses to its partners. Each partner includes his or her share of the partnership's income or loss on his or her tax return.

Partners are not employees and should not be issued a Form W-2. The partnership must furnish copies of Schedule K-1 (Form 1065) to the partners by the date Form 1065 is required to be filed March 15th, unless the Partnership is on extension. Schedule K-1 will go on the Individual Tax Return.
Advantages of a Partnership

Easy and Inexpensive. Partnerships are generally an inexpensive and easily formed business structure. The majority of time spent starting a partnership often focuses on developing the partnership agreement.

Shared Financial Commitment. In a partnership, each partner is equally invested in the success of the business. Partnerships have the advantage of pooling resources to obtain capital. This could be beneficial in terms of securing credit, or by simply doubling your seed money.

Complementary Skills. A good partnership should reap the benefits of being able to utilize the strengths, resources and expertise of each partner.

Partnership Incentives for Employees. Partnerships have an employment advantage over other entities if they offer employees the opportunity to become a partner. Partnership incentives often attract highly motivated and qualified employees.
Disadvantages of a Partnership

Joint and Individual Liability. Like sole proprietorships, partnerships retain full, shared liability among the owners. Partners are not only liable for their own actions, but also for the business debts and decisions made by other partners. In addition, the personal assets of all partners can be used to satisfy the partnership’s debt.

Disagreements Among Partners. With multiple partners, there are bound to be disagreements. Partners should consult each other on all decisions, make compromises, and resolve disputes as amicably as possible.

Shared Profits. Because partnerships are jointly owned, each partner must share the successes and profits of their business with the other partners. An unequal contribution of time, effort, or resources can cause discord among partners.
S Corporation
Form 1120S
An S corporation (also referred to as an S corp) is a special type of corporation created through an IRS tax election. An eligible domestic corporation can avoid double taxation (once to the corporation and again to the shareholders) by electing to be treated as an S corporation.

An S corp is a corporation with the Subchapter S designation from the IRS. What makes the S corp different from a traditional corporation (C corp) is that profits and losses can pass through to your personal tax return. Consequently, the business is not taxed itself. Only the shareholders are taxed. There is an important caveat, however: any shareholder who works for the company must pay him or herself "reasonable compensation." Basically, the shareholder must be paid fair market value, or the IRS might reclassify any additional corporate earnings as "wages." This means the Shareholder will need to go on Payroll.
Forming an S Corporation

To file as an S corporation, you must first file as a corporation. After you are considered a corporation, all shareholders must sign and file Form 2553 Election by a Small Business Corporation to elect your corporation to become an S corporation. Once your business is registered, you must obtain business licenses and permits. Regulations vary by industry, state and locality.
Combining the Benefits of an LLC with an S Corp

There is always the possibility of requesting S corp status for your LLC. Your attorney can advise you on the pros and cons. You'll have to make a special election with the IRS to have the LLC taxed as an S Corp using Form 8832 Entity Classification Election and Form 2553 Election by a Small Business Corporation. And you must file it before the first two months and fifteen days of the beginning of the tax year in which the election is to take effect.

The LLC remains a limited liability company from a legal standpoint, but for tax purposes it's treated as an S corp. Be sure to contact your state's income tax agency where you will file the election form to learn about tax requirements.
Advantages of an S Corporation

Tax Savings. One of the best features of the S Corp is the tax savings for you and your business. While members of an LLC are subject to employment tax on the entire net income of the business, only the wages of the S Corp shareholder who is an employee are subject to employment tax. The remaining income is paid to the owner as a "distribution," which is taxed at a lower rate, if at all.

Business Expense Tax Credits. Some expenses that shareholder/employees incur can be written off as business expenses. Nevertheless, if such an employee owns 2% or more shares, then benefits like health and life insurance are deemed taxable income.

Independent Life. An S Corp designation also allows a business to have an independent life, separate from its shareholders. If a shareholder leaves the company, or sells his or her shares, the S Corp can continue doing business relatively undisturbed. Maintaining the business as a distinct corporate entity defines clear lines between the shareholders and the business that improve the protection of the shareholders.
Disadvantages of an S Corporation

Stricter Operational Processes. As a separate structure, S corps require scheduled director and shareholder meetings, minutes from those meetings, adoption and updates to by-laws, stock transfers and records maintenance.

Shareholder Compensation Requirements. A shareholder must receive reasonable compensation. The IRS takes notice of shareholder red flags like low salary/high distribution combinations, and may reclassify your distributions as wages. You could pay a higher employment tax because of an audit with these results.
Corporation
Form 1120 Corporation
A corporation (sometimes referred to as a C corporation) is an independent legal entity owned by shareholders. This means that the corporation itself, not the shareholders that own it, is held legally liable for the actions and debts the business incurs.

Corporations are more complex than other business structures because they tend to have costly administrative fees and complex tax and legal requirements. Because of these issues, corporations are generally suggested for established, larger companies with multiple employees.
Advantages of a Corporation

Limited Liability. When it comes to taking responsibility for business debts and actions of a corporation, shareholders’ personal assets are protected. Shareholders can generally only be held accountable for their investment in stock of the company.

Ability to Generate Capital. Corporations have an advantage when it comes to raising capital for their business - the ability to raise funds through the sale of stock.

Corporate Tax Treatment. Corporations file taxes separately from their owners. Owners of a corporation only pay taxes on corporate profits paid to them in the form of salaries, bonuses, and dividends, while any additional profits are awarded a corporate tax rate, which is usually lower than a personal income tax rate.

Attractive to Potential Employees. Corporations are generally able to attract and hire high-quality and motivated employees because they offer competitive benefits and the potential for partial ownership through stock options.
Disadvantages of a Corporation

Time and Money. Corporations are costly and time-consuming ventures to start and operate. Incorporating requires start-up, operating and tax costs that most other structures do not require.

Double Taxing. In some cases, corporations are taxed twice - first, when the company makes a profit, and again when dividends are paid to shareholders.

Additional Paperwork. Because corporations are highly regulated by federal, state, and in some cases local agencies, there are increased paperwork and recordkeeping burdens associated with this entity.
Setting up Payroll
To get started:
Step 1: Have all employees complete a W-4. ...
Step 2: Find or sign up for Employer Identification Numbers. 
Step 3: Choose your payroll schedule. ...
Step 4: Calculate and withhold income taxes. ...
Step 5: Pay taxes. ...
Step 6: File tax forms & employee W-2s.
Form W-4, Employee's Withholding Allowance Certificate

Complete this form so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.
W-4

Employee’s Withholding Allowance Certificate

1. Your first name and middle initial or first name and last name
2. Your social security number
3. Single, Married, or Married but withheld at higher single rate
4. If your name has changed, check here
5. Total number of allowances you are claiming on line 1 above or on the applicable worksheet on page 2
6. Additional amount, if any, you want withheld from each paycheck
7. I claim exemption for withholding for 2016, and I certify that I meet both of the following conditions for exemption.
8. Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.
9. Employee’s signature
10. Date

Separate here and give Form W-4 to your employer. Keep the top part for your records.
Set up Payroll Tax Accounts

Federal Tax Withholding
State Tax Withholding
Social Security Company (Company over Employer as it causes less confusion)
Social Security Employee
Medicare Company (Company over Employer as it causes less confusion)
Medicare Employee
State Unemployment Account- Employee and Company Rate
Futa- Federal Unemployment Tax Account
Addition Payroll Items

Ensure you set up these deductions from gross or net pay with the right tax affects.

- Reported Tips In
- Expense Reimbursements
- Travel Advances
- Employee Advances (if you have advances and repayments, add Employee Advances as a Current Asset Account)
Deduction Payroll Items

Ensure you set up these deductions from gross or net pay with the right tax affects.

- Reported Tips Out
- Loan Repayments
- Employee-Paid Insurance
- Employee Contributions (401(k))
- Garnishments (post to come on setting up the limits and such)
- Child Support Payments
- Employee Advance Repayments (if you have advances and repayments, add Employee Advances as a Current Asset Account)
Company Contributions Payroll Items

Ensure you set up these deductions from gross or net pay with the right tax affects.

*Health Insurance – Company*
*Company Contributions (401(k))*
Paying Payroll Taxes
As a new company paying payroll taxes you need to be aware of when payroll taxes are due, typically federal payroll withholding taxes (federal withholding, Social Security and Medicare) are due on a monthly basis by the 15th. When you set up a new withholding account with your state, typically state withholding is due by the 15th or each month or on a quarterly basis. If your state has local earned income tax, these payroll taxes are typically due every quarter.

State Unemployment Payroll Tax Payments and returns are due on a quarterly basis.

FUTA- Federal Unemployment Tax Account Returns and payments are due at the end of the year.
Quarterly Payroll Reports


State Payroll Tax Reporting- Most states require a quarterly Payroll Tax Reporting that are due on a quarterly basis. These reports are due at the end of each quarter and report wages paid and state withholding paid.

State Unemployment- Each quarter, states require state unemployment returns to be filed with payment of company paid unemployment as well as employee portion paid.
Form 941
**W-3 Transmittal of Wage and Tax Statements**

Send this entire page with the entire Copy A page of Form(s) W-2 to the Social Security Administration.

**Photoscans are not acceptable.**

Do not send any payment (cash, checks, money orders, etc.) with Forms W-2 and W-3.

**An Item To Note**

Separate instructions. See the 2007 instructions for Forms W-2 and W-3 for information on completing this form.

**Purpose of Form**

Use this form to transmit Copy A of Form(s) W-2, Wage and Tax Statements, and Copy B or C (For Employers) of Form(s) W-3 for your records. Use forms W-2 for the current year. If you file more than one Form W-2 is being filed, file one form W-2 by February 28, 20XX.

**When to File**

File Form W-2 with Copy A of Form(s) W-2 by February 28, 20XX.

For Privacy Act and Paperwork Reduction Act Notice, see the instructions.
W-2
Payroll Reporting End of the Year

W-2’s need to be given to all employees by the end of January. W-3’s Need to be sent to Social Security to reconcile all W-2’s given to employees.

Form 940- Form 940 reconciles FUTA payments through the year and sent to the IRS.
Payroll Reporting End of the Year

Copies of W-2’s also need to be sent to the State and Local Earned Income Taxing Agencies. Also all quarterly reporting must be complete such as Form 941, etc. Failure to reconcile quarterly forms or pay payroll taxes on time can result in interest and penalties.
Payroll Reporting End of the Year

You need to issue contractors who earn over $600.00 a 1099-MISC and send Form 1096 to the IRS. Form 1096 reconciles all 1099-MISC issued by your company.
Questions