

# Setting Up Your Business

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ICE BREAKER

# Outline

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- 2 key concepts of the course, this module
- The different types of businesses / corporate structures
- Writing proposals
- Contracts
- Getting paid
- Tracking money (and taxes!)
- Introduction to PROJECT 1
- DISCUSSION

Caveat Emptor:

I am not a lawyer or  
an accountant

# TWO KEY CONCEPTS FOR THIS COURSE

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1. Working for yourself is the one way to guarantee (or minimize the probability) that you will not be laid off
2. Setting up a solopreneur business is easy and landing your first client is easier than getting your next job

# TWO KEY CONCEPTS FOR THIS MODULE

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1. Setting yourself up as a business provides you several key advantages, including being taken seriously by clients, providing legal protection, and opening yourself up to opportunities that individuals do not necessarily have access to
2. Operating as a business requires a level of formality in certain key areas, such as getting contracts, tracking time and finances, and taxes


SURVEY QUESTION:

Legal liability

# Different types of businesses



# The Secretary of State website: your first stop



## Starting a Business in Colorado

[Skip to content](#)[Menu](#)

### Introduction

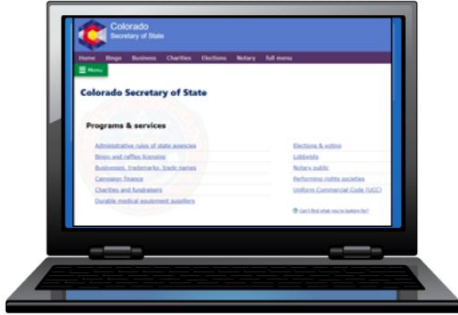
Starting a business is easy to do in Colorado. The Secretary of State's office has enabled online filing for most documents.


This module will help you get started. If you need more guidance or advice, consult with a legal or tax professional.

In this module, you'll learn how to:

1. [Register your business](#)
2. [Secure your business record and take next steps](#)

Get started by using the **Next** button or select a topic above.



[Español](#)[Next](#)

# There are tons of options!

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## US

- Sole proprietorship
- Limited Liability Company (LLC)
- C-Corporation (C-Corp)
- S-Corporation (S-Corp)

## UK

- Sole trader
- Limited company (Ltd)
- Public Limited Company (PLC)
- *No direct equivalent*

Not all of these are created equally from the perspective of a solopreneur!

# Sole proprietorship

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- The absence of a legal entity, not an actual entity
- What you have by default when you haven't formed a legal entity
- What happens when you do nothing
  - You don't file or create it, you just start working
- You might state that you are “doing business as” (DBA) to use a business name
- Zero legal separation between you and the business
- Taxes based off of Schedule C
  - Income plus self-employment tax on all net profits

Your personal assets are at risk!!!

# UK Sole Trader

(\*generated by Claude and Gemini)

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- Register with His Majesty's Revenue and Customs (HMRC), not Companies House
- Use your National Insurance number
- File Self Assessment tax return annually
- No legal separation between you and the business
- Unlimited liability

# Limited Liability Company (LLC)

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- A legal business entity
- Owners are called “members”
  - They elect or hire a manager(s) to run the business
  - They can be the manager themselves
- The most common starting point for solopreneurs
- Can be single member
- Because it is its own separate legal entity, you get liability protection
- For tax purposes, treated exactly like a sole proprietorship
  - Schedule C

People can't come after your personal assets!

# UK Limited Company (Ltd)

(\*some content generated by Claude and Gemini)

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- Owners are called “shareholders”
- “Directors” run the company
- Must register with Companies House
- Separate legal entity providing liability protection
- Subject to Corporation Tax (not personal income tax on profits retained in company)

# Requirements to form an LLC

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- Appoint a registered agent
- Register your business name with the state
  - Must be unique to the state
- File Articles of Organization with the state
  - THE document that legally creates your LLC
  - Contains basic information: LLC name, registered agent, address, sometimes member names
- Create an Operating Agreement
  - Outlines ownership, management, and operating procedures
- Obtain an Employer Identification Number (EIN)
- File necessary paperwork with SoS
- Secure any necessary licenses or permits
- Open a business banking account (optional, but *highly* recommended)
- File annual paperwork and fees with your state

# Requirements to form a UK Ltd

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- Register with Companies House
- Choose a unique company name
  - Must end in “Ltd” or “Limited”
- Appoint at least one director
- Have at least one shareholder
- Provide a registered office address in the UK
- Create Memorandum and Articles of Association
- Register for Corporation Tax with HMRC
- File annual confirmation statement
- Open a business banking account (optional, but *highly* recommended)





Colorado Secretary of State  
ID#: 20238254702  
Document #: 20238254702  
Filed on: 11/30/2023 12:36:22 PM  
Paid: \$50.00

### Articles of Organization for a Limited Liability Company

filed pursuant to § 7-90-301 and § 7-80-204 of the Colorado Revised Statutes (C.R.S.)

**The domestic entity name of the limited liability company is** Clair Sullivan & Associates LLC

**The principal office street address is**

**The principal office mailing address is** PO Box 7399  
Breckenridge CO 80424  
US

**The name of the registered agent is** Clair Julia Sullivan

**The registered agent's street address is**

**The registered agent's mailing address is** PO Box 7399  
Breckenridge CO 80424  
US

The person above has agreed to be appointed as the registered agent for this entity.

**The management of the limited liability company is vested in** Managers

There is at least one member of the limited liability company.

**Person(s) forming the limited liability company**

Suzanna Wasito Tiflickjian

Causing this document to be delivered to the Secretary of State for filing shall constitute the affirmation or acknowledgment of each individual causing such delivery, under penalties of perjury, that the document is the individual's act and deed, or that the individual in good faith believes the document is the act and deed of the person on whose behalf the individual is causing the document to be delivered for filing, taken in conformity with the requirements of part 3 of article 90 of title 7, C.R.S., and, if applicable, the constituent documents, and the organic statutes, and that the individual in good faith believes the facts stated in the document are true and the document complies with the requirements of that Part, the constituent documents, and the organic statutes.

This perjury notice applies to each individual who causes this document to be delivered to the Secretary of State, whether or not such individual is named in the document as one who has caused it to be delivered.

**Name(s) and address(es) of the individual(s) causing the document to be delivered for filing**

Suzanna Wasito Tiflickjian

# Free LLC Operating Agreement

Create an LLC Operating Agreement tailored to your business.

**Start by selecting your LLC type below.**



Multi-Member



Single Member

Colorado ▾

Create Document



Attorney-Approved



PDF & Word

20M+ Documents Created Since 2015

## Your Agreement in 3 Steps

1

### Enter Business Details

Add your LLC's name, business address, member roles, and other details.

2

### Customize Agreement

Choose how your LLC will be managed, how profits are split, and other key rules.

3

### Download and Sign

Save your document as a PDF or Word file, then print, share, or sign it online.

<https://legaltemplates.net/>



What's in a  
name?



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# C-Corp

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- A separate legal entity
  - Separate from the people who create it
- Owned by shareholders
- Run by a board of directors elected by the shareholders
- Double taxation
  - Corporate income tax on profits
  - Profits distributed to shareholders via dividends are taxed on their personal taxes
- The structure typically required by venture capitalists
- Useful if you want to retain significant earnings in the company for growth
- Helpful if you eventually plan to sell the company

# Requirements to form a UK PLC

(\*some content generated by Claude and Gemini)

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- Issued share capital of at least £50,000
  - Ltd has no minimum capital requirement
- Must have at least 2 directors
- Must have at least 2 shareholders
- Must have a company secretary
- Company name must end with “Public Limited Company” or “PLC”
- Formal registration process and approval with Companies House
  - File form IN01 (Application to register a company)
  - Apply for a “trading certificate” (Form SH50)
- Many more annual reporting requirements than Ltd
- Required for being listed on the London Stock Exchange or other recognized exchanges

Because of the staffing requirements, this is not a viable setup for a solopreneur.

SURVEY QUESTION:

VC Funding

# Requirements to form and run a C-Corp

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- Created by Articles of Incorporation
- Must adopt bylaws
- Annual shareholder meetings
- Election of board of directors
- Maintenance of corporate records
- Complete separation of business and personal finances

# S-Corp

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- A tax election, not a legal entity type
  - Fill out a form with the IRS
- Can be elected for either LLC or C-Corp
- Changes how the IRS taxes you
  - Split your income between salary (a “reasonable wage”) and distribution
  - Salary is subject to self-employment tax
  - Distribution is not
- Can significantly lower your taxes if your net income exceeds \$60k-\$80k



# Requirements to elect S-Corp taxation beyond LLC

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- IRS Form 2553: Election by a Small Business Corporation
- Annual or biennial reports filed with the state
- Maintain payroll records
- Run payroll
- Quarterly payroll tax filings
- Formal meeting minutes, extensive corporate records
- Formal documentation of major business decisions

For the new solopreneur, the tax benefits do not necessarily outweigh the additional burdens of management of an S-Corp

SURVEY QUESTION:

Preferred structure

Writing proposals

# Some basics

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- Good proposals are...
  - Short (about 1-2 pages)
  - Answer who, what, when, where, why (only if absolutely necessary), and how (technical approach and how *much*)
  - No fluff language
- The precursor to a contract
  - Use contract-like language
  - Milestones and deliverable must be VERY clear, including sign offs
- Prospective clients like round numbers
  - Do not estimate down to the penny
- If you get to this point with a client, you already should know what problem they would like your help solving and details on what they are looking for in the work. Propose exactly that!

# Estimating time and price

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- Start with the Financial Readiness Framework from Module 1
- Estimate time needing to fully execute
  - Pro tip: track time from previous work (including in corporate!) to get better at ballparking hours needed
  - Pad this by 25-35% (smaller value the better you get at this)
- Multiply these two to get an idea of your break even number
- Add in extra for larger companies
- Be sure to include travel, expenses on final cost
- Be sure to consider if prospective client likes to have a lot of meetings because those add up on hours quickly!

# DISCUSSION:

Brainstorm a list of default questions to ask a prospect to get quickly to the proposal

# Contracts

Caveat Emptor:

I am not a lawyer or  
an accountant



# The obvious

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- Always, *always*, **ALWAYS** have a contract in place!!!
- No contract, no work
  - “We’ll send the contract later” means no work starts now!
- Email agreements might be considered binding
  - ...but formal contracts are clearer!
- Friends and family still need contracts
- Contracts protect both parties
- A good contract prevents disputes

# Contracts come in many types

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- Time and materials
  - Master Service Agreement (MSA)
  - Fixed Price
  - Retainer agreement
  - Work-for-Hire agreement
  - Licensing agreement
- 
- Non-Disclosure Agreement (NDA)
  - Change orders/amendments

# Time and materials

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- Based on time worked (hourly, daily) plus any materials or expenses
- Final cost is not predetermined
  - Good to put in contract an upper and lower limit
- Use when...
  - The scope of the work is unclear
  - The scope is likely to evolve
  - Ongoing development work
  - When you can't predict how long something will take
- Requires good tracking of time and regular invoicing

# MSA

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- Establishes general terms of relationship with client
  - Payment terms
  - IP ownership
  - Dispute resolution
  - Termination clauses
- Stays in place for entire relationship without negotiation
- Create Statements of Work (SOW) for individual tasks/projects
- Use when...
  - You expect to work on multiple projects repeatedly with a client
  - Projects can be easily boiled down rather than nebulous Time and Materials
- Saves time with enterprise clients since you negotiate once and then just add tasks onto existing MSA contract

# Fixed Price

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- You agree with client to deliver defined deliverables for a total fee, regardless of how many hours it takes
  - Risk of underbidding by not estimating required time well
- Use when...
  - Scope is very clear
  - You can accurately estimate the work
  - Repetitive work
- Risk of scope creep on these is real
  - Have a very clear change order process

# Retainer agreement

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- Considered by some to be ideal in order to combat income uncertainty and fluctuations for solopreneurs
- Client pays recurring fee for a guaranteed allocation of your time or services
- Use when...
  - Ongoing relationship where client needs regular access to your expertise
- Be sure to specify...
  - How many hours per month are guaranteed
  - Whether unused hours roll over
  - Response time commitments
  - What happens if they need more hours than the retainer covers

SURVEY QUESTION:

Contract types

# Work-for-hire agreement

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- Specifies the client owns all IP
- Client is legally considered the “author” of all the work, even though you created it
  - When an employee creates something for a company, the company owns it
  - Under this type of agreement, you are not an employee of the company and would ordinarily own it, but under this type of contract, they own all of it
- Use when...
  - You are building something for the client that will be core to their business
- Make sure you price appropriately to compensate for the fact that you are giving up all rights



# License agreements

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- Instead of transferring IP ownership, you grant a client license to use what you create
- You retain ownership but give them specific usage rights
- Use when...
  - You want to re-use code components or methodologies across clients
  - Selling products
- On pricing, consider your development time, number of anticipated clients/licensees, etc.
- Less common for custom work, more common on repetitive work, products, templates

# NDA

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- Protects confidential information shared during the business relationship
- Can be one-way or mutual
- Use when...
  - Before detailed discussions begin
  - Either side will share proprietary information, technology, business strategies, or sensitive data
- Can be stand alone or incorporated into other contracts

# Change order / amendment

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- Not a standalone contract
- Formal process for modifying existing contracts when scope changes
- Use when...
  - Client requests work outside of original scope
  - Changes to the who, what, when, where, how
- NEVER do extra work without a signed change order that specifies additional deliverables, cost, and timeline impact
  - Original contract might contain provisions for how change will be handled

# Every contract should have...

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- Clear scope of work and deliverables
- Payment terms
  - Amount
  - Schedule
  - Payment mechanism (ACH, credit card, etc.)
  - Let fees (if any)
- Timeline and milestones
- IP ownership
- Confidentiality provisions
- Liability limitations
- Termination clause
- Dispute resolution
- Governing law (which state's or country+jurisdiction's laws apply)

# Contract red flags

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- Unlimited revisions
- Vague scope
  - “Other duties as assigned”
- Net 60+ payment terms
- Very high liability insurance requirements
- Broad non-compete clauses
  - More common in work-for-hire contracts
- Unlimited liability
  - No cap on how much you can be financially liable for if something goes wrong
- Auto-renewal clauses without clear termination rights

# How to actually create a contract

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- Caveat emptor!!!
- Many companies will already have a standard contract. Start with that
  - Saves time, money
  - Will absolutely contain what is best for your client, NOT YOU (ex: Net 60+)
- Never sign a client's contract without fully reading it AND fully understanding it!!!
- If you need to create your own, start with a lawyer-reviewed template for your most common engagement types
  - Then customize for each client but keep core protections
- Consider DocuSign or PandaDoc for a more professional presentation
- If it is fishy, don't sign it without a lawyer reviewing it!
- Useful websites:
  - LegalZoom
  - Bonsai

## DISCUSSION:

If you are using a client's contract, what are non-negotiables for you that would actually result in you slowing the process down to attempt negotiations over? Why?

Getting paid



Caveat Emptor:

I am not a lawyer or  
an accountant

# Types of payment

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- Hourly
- Project-based
- Retainer
- Product-based
- How you receive money is more or less efficient depending on the type of work
  - Ex: Hourly, project-based, or retainer might be best as ACH/money transfer
  - Product-based might work best as a credit card
- Once you receive money from clients, you pay yourself by taking a “draw” (transferring money to your personal bank account) or by a salary (if S-Corp)

# Track all of your time and expenses (even if project-based pricing!)

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- Tracking your time now helps you estimate time needed later
- Absolutely necessary for Time and Materials contracts
  - A good idea to state what increments time will be tracked by in contract (Minute? Quarter hour? Full hour?)
- Not having to track time is considered one of the benefits of retainer contracts
  - ...and yet you still have to track it!

# Demo of time tracker code on GitHub

```
git clone https://github.com/ClairSullivan-Associates/solopreneur_course.git
```

# The nitty gritty on what taxes you will owe

(\*some content generated by Claude and Gemini)

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## US

- Federal self employment tax (15.3%)
  - Social security
  - Medicare
  - Paid on 92.35% of net profit (not gross income)
- Federal income tax (10%-37%)
  - Progressive tax rates based on taxable income after deductions
- State and local income tax

## UK

- Income tax (20% basic rate, 40% higher rate, 45% additional rate)
- National Insurance Class 2 (flat rate for Sole Traders)
- National Insurance Class 4 (9% on profits £12,570-£50,270; 2% above)
- Corporation Tax for Limited Companies (10-25%)

# How you will file taxes (US)

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- When you begin a contract your client will ask you to submit a W-9
  - Provides them with your EIN
- Your clients will give you 1099's at the end of the tax year
- You will use your accounting system to generate an income statement (AKA Profit and Loss statement)
  - Shows your income, expenses, and which expenses are tax deductible
- This will be used to create your Schedule C, which will act like your W2
- The Schedule C is used to populate your 1040
- You must file quarterly estimated tax payments!!!

# Filing taxes in the UK

(\*some content generated by Claude and Gemini)

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## UK Sole Trader

- Clients generally do NOT provide tax forms
- You track all income and expenses
- File Self Assessment tax return online by January 31
- Pay tax in two installments: “payments on account”

## UK Limited Company

- File Corporation Tax return (CT600) within 12 months of year end
- Pay Corporation Tax within 9 months and 1 day of year end
- Final annual accounts with Companies House
- Directors file personal Self Assessment for salary and dividends

SCHEDULE C  
(Form 1040)

Department of the Treasury  
Internal Revenue Service

Profit or Loss From Business  
(Sole Proprietorship)

OMB No. 1545-0074  
2024  
Attachment  
Sequence No. 09

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.  
Go to [www.irs.gov/ScheduleC](https://www.irs.gov/ScheduleC) for instructions and the latest information.

Name of proprietor

Principal business or profession, including product or service (see instructions)

Business name. If no separate business name, leave blank.

Business address (including suite or room no.)  
City, town or post office, state, and ZIP code

Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) \_\_\_\_\_

Did you "materially participate" in the operation of this business during 2024? If "No," see instructions for limit on losses ☐ Yes ☐ No

If you started or acquired this business during 2024, check here ☐ Yes ☐ No

Did you make any payments in 2024 that would require you to file Form(s) 1099? See instructions ☐ Yes ☐ No

If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☐ No

Part I  
Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked ☐

2 Returns and allowances

3 Subtract line 2 from line 1

4 Cost of goods sold (from line 42)

5 Gross profit. Subtract line 4 from line 3

6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)

7 Gross income. Add lines 5 and 6

Part II  
Expenses. Enter expenses for business use of your home only on line 30.

8 Advertising

9 Car and truck expenses (see instructions)

10 Commissions and fees

11 Contract labor (see instructions)

12 Depreciation

13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)

14 Employee benefit programs (other than on line 19)

15 Insurance (other than health)

16 Interest (see instructions):  
a Mortgage (paid to banks, etc.)  
b Other

17 Legal and professional services

18 Office expense (see instructions)

19 Pension and profit-sharing plans

20 Rent or lease (see instructions):  
a Vehicles, machinery, and equipment  
b Other business property

21 Repairs and maintenance

22 Supplies (not included in Part III)

23 Taxes and licenses

24 Travel and meals:  
a Travel  
b Deductible meals (see instructions)

25 Utilities

26 Wages (less employment credits)

27a Other expenses (from line 48)  
b Energy efficient commercial bldgs deduction (attach Form 7209)

28 Total expenses before expenses for business use of home. Add lines 8 through 27b

29 Tentative profit or (loss). Subtract line 28 from line 7

30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions.  
Simplified method filers only: Enter the total square footage of (a) your home: \_\_\_\_\_ and (b) the part of your home used for business: \_\_\_\_\_. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30

31 Net profit or (loss). Subtract line 30 from line 29.  
• If a profit, enter on both Schedule 1 (Form 1040), line 3, and on Schedule SE, line 2. (If you checked the box on line 1, see instructions.) Estates and trusts, enter on Form 1041, line 3.  
• If a loss, you must go to line 32.

32 If you have a loss, check the box that describes your investment in this activity. See instructions.  
• If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 3, and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on Form 1041, line 3.  
• If you checked 32b, you must attach Form 6198. Your loss may be limited.

32a ☐ All investment is at risk.  
32b ☐ Some investment is not at risk.

Schedule C (Form 1040) 2024

Page 2

Part III  
Cost of Goods Sold (see instructions)

33 Method(s) used to value closing inventory: a ☐ Cost b ☐ Lower of cost or market c ☐ Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation ☐ Yes ☐ No

35 Inventory at beginning of year. If different from last year's closing inventory, attach explanation

36 Purchases less cost of items withdrawn for personal use

37 Cost of labor. Do not include any amounts paid to yourself

38 Materials and supplies

39 Other costs

40 Add lines 35 through 39

41 Inventory at end of year

42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4

Part IV  
Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month/day/year) \_\_\_\_/\_\_\_\_/\_\_\_\_

44 Of the total number of miles you drove your vehicle during 2024, enter the number of miles you used your vehicle for:  
a Business \_\_\_\_\_ b Commuting (see instructions) \_\_\_\_\_ c Other \_\_\_\_\_

45 Was your vehicle available for personal use during off-duty hours? ☐ Yes ☐ No

46 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No

47a Do you have evidence to support your deduction? ☐ Yes ☐ No  
b If "Yes," is the evidence written? ☐ Yes ☐ No

Part V  
Other Expenses. List below business expenses not included on lines 8-26, line 27b, or line 30.

48 Total other expenses. Enter here and on line 27a

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2024

Schedule C (Form 1040) 2024

Page 2



# Income Statement (Profit and Loss)

Clair Sullivan& Associates, LLC

For the year ended December 31, 2025

<b>Income</b>
Sales
<b>Total Income</b>
<b>Gross Profit</b>
<b>Operating Expenses</b>
Advertising
Bank Service Charges
Business License & Fees
Dues & Subscriptions
Insurance
Meals & Entertainment
Miscellaneous
Other Expense
<b>Total Operating Expenses</b>
<b>Operating Income</b>
<b>Net Income</b>

# Some rules of thumb

(\*generated by Claude)

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- Tier 1: No state income tax → Set aside 25-30% (Texas, Florida, Washington, Nevada, etc.)
- Tier 2: Low state tax (under 5%) → Set aside 30-35% (Colorado, Arizona, North Carolina, Indiana, etc.)
- Tier 3: Moderate state tax (5-7%) → Set aside 35-38% (Missouri, Oklahoma, Georgia, etc.)
- Tier 4: High state tax (8%+) → Set aside 38-45% (California, New York, New Jersey, Hawaii, Minnesota, Oregon, etc.)
- Tier 5: High state + local tax → Set aside 40-45%+ (New York City, San Francisco, etc.)

Get a much better number from your accountant!

# UK Tax Forms

(\*some content generated by Claude and Gemini)

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- Self Assessment (SA100) for Sole Traders
- Self-employment pages (SA103)
- Corporation Tax return (CT600) for Limited Companies
- P11D for director benefits
- Annual accounts (abridged or full, depending on company size)

# Some rules of thumb: UK edition

(\*generated by Claude)

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- Sole Trader: set aside 30-35% of net profit
  - Covers Income Tax and National Insurance
  - Higher earners (over £50,270) should set aside 40-45%
- Limited Company: more complicated
  - Set aside 19-25% for Corporation Tax on company profits
  - Then Income Tax and National Insurance on salary/dividends you take

Get a much better number from your accountant!

Tracking money

Caveat Emptor:

I am not a lawyer or  
an accountant

# Sending invoices

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- Doesn't have to be complicated
  - A PDF and email works!
  - Can also pay for online systems to handle this
- Each client will have a different level of detail they want
  - Do they want detailed descriptions of what you worked on?
  - Do they want hours reported daily, weekly, or monthly?
  - If on an MSA, they might want you to break it out by task number, meaning you need to track this as well!
- Some will have systems for collecting and approving invoices
- On each invoice, provide a gentle reminder of the due date (when the money is RECEIVED, NOT sent!), net terms as per the contract
- UK: VAT-registered businesses must include VAT number on invoices

# What is tax deductible

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## **The easier ones...**

- “Ordinary and necessary”
- Must be for business purposes
- Equipment and technology
- Professional services
- Advertising
- Office supplies
- Subscriptions and memberships
- Licenses and permits

## **The ones requiring some more discussion...**

- Home office deduction
- Internet and phone
- Professional development
- Travel
- Health insurance
- Retirement contributions
- The S-Corp nuance

In the UK, HMRC use “wholly and exclusively” for business test. The UK also has different home office rules and Annual Investment Allowance for equipment. Consult your accountant!



# Sample tax calculation of default LLC vs. S-Corp

(\*according to Claude)

	LLC (default)	S-Corp
<b>Income Breakdown</b>		
Salary/Wages	\$0	\$65,000
Distribution/Profit	\$100,000	\$35,000
<b>Total Income</b>	<b>\$100,000</b>	<b>\$100,000</b>
<b>Self-Employment/Payroll Tax</b>		
SE Tax (15.3% on \$92,350)	\$14,130	\$0
Payroll Tax on Salary (15.3%)	\$0	\$9,945
Payroll Tax on Distribution	\$0	\$0
<b>Total SE/Payroll Tax</b>	<b>\$14,130</b>	<b>\$9,945</b>

# Sample tax calculation of default LLC vs. S-Corp

(\*according to Claude)

	LLC (default)	S-Corp
<b>Income Tax Calculation</b>		
Total Income	\$100,000	\$100,000
Minue ½ SE Tax Deduction	(\$7,065)	\$0
Adjusted Gross Income	\$92,935	\$100,000
Minus Standard Deduction	(\$14,600)	(\$14,600)
Taxable Income	\$78,335	\$85,400
Federal Income Tax	\$12,287	\$13,841
<b>Total Tax Burden</b>	<b>\$26,417</b>	<b>\$23,786</b>

# Sample UK tax calculation

(\*according to Claude)

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## Sole Trader:

- Income: £100,000
- Less: Personal Allowance: (£12,570)
- Taxable: £87,430
- Income Tax: £26,432 (calculated on bands)
- NI Class 4: £7,167
- Total tax: £33,599
- Take-home: £66,401

## Limited Company (optimal salary/dividend split):

- Company profit: £100,000
- Director salary: £12,570 (no income tax or NI)
- Remaining profit: £87,430
- Corporation Tax (19%): £16,612
- Available for dividends: £70,818
- Dividend tax: £11,209
- Total tax: £27,821
- Take-home: £72,179

# Some final notes

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- Work with your accountant to come up with your value for quarterly payments
  - But when you are just starting and don't have a basis for this, work with your accountant to develop the rule of thumb for what to set aside
- Save. Your. Receipts!!!
  - You do not actually show them on your taxes but will need them if audited
- Keep your business banking 100% separate from your personal banking!
  - Online accounting tools make it easy for you to create your Schedule C if you keep all of your business expenses in one account that is fully separate from your personal expenses!

Project #1:

Your Initial  
Business Idea

# TWO KEY CONCEPTS FOR THIS MODULE

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1. Setting yourself up as a business provides you several key advantages, including being taken seriously by clients, providing legal protection, and opening yourself up to opportunities that individuals do not necessarily have access to
2. Operating as a business requires a level of formality in certain key areas, such as getting contracts, tracking time and finances, and taxes

# SURVEY QUESTIONS

# To do list

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- “I do X for Y” in #general
- Find your state’s Secretary of State website and explore their information regarding starting your own business
- Post your results for Project #1 in the Project #1 channel



# DISCUSSION