



Associates P.C.

Certified Public Accountants & Business Advisors

2023

**SMALL
BUSINESS
GUIDE**



sdaccounting.com

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OUR MISSION

We are committed to our clients by maintaining the highest quality of standards, integrity and professionalism in our relationships.

We endeavor to provide timely, proactive, innovative and independent financial and tax services to privately owned businesses, their owners and families.

SD Associates P.C., organized in 1983, is a full-service CPA and business advisory firm located in metropolitan Philadelphia servicing clients throughout the Tri-State area. Our firm's philosophy has been, and continues to be, to consistently provide the highest quality of personalized service to our clients.

OUR SERVICES

Attestation Services

- Compilation, Review, & Audit of Financial Statements
- Agreed-upon Financial Forecasts & Projections & Other Engagements
- Reporting on Pro Forma Financial Information
- Compliance Attestation

Tax Services

- S Corporations, C Corporations
- Individual Returns
- Partnership Returns
- Estate Returns
- Tax Dispute Resolutions
- Employee Retention Credit Studies
- Fiduciary and Trust Returns
- Gift Tax Returns
- State & Local Tax Issues

Tax Planning & Advisory Services

- 1031 Exchanges
- Estimates and Projections
- Budgeting & Forecasting

Business Services

- Business Structure & Reorganizations
- Business Advisory
- Buy/Sell Arrangements
- Business Acquisitions and Sales
- Strategic Planning
- Business Evaluations
- Financial Planning
- Bankruptcy & Insolvency

Accounting Services

- Bookkeeping Services - QB Specialists
- Training & Support
- Payroll Services

This information included in this guide is general in nature and is not meant as tax or legal advice. Tax laws are subject to change. Please consult your legal or tax advisor.



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FEDERAL TAX UPDATES FOR TAX YEAR 2022

American Rescue Plan Act Changes

In 2021 the American Rescue Plan Act (ARPA) was signed into law to provide financial relief for millions of Americans, however the following tax benefits will either revert back to what they were prior to the ARPA or will expire for tax year 2022:

Child Tax Credit:

- Credit reverts back to a maximum of \$2,000 for 2022-2025
- Children must be under 17 to qualify
- No longer fully refundable: refundable up to \$1,400
- No advance child tax credits
- Credit is available if earnings are up to \$200,000 for an individual and up to \$400,000 if married filing jointly

Child and Dependent Care Credit

- Credit adjusts back to the pre-2021 provision: up to 35% of \$3,000 (maximum credit of \$1,050); for two or more dependents, up to 35% of \$6,000 (maximum credit of \$2,100)
- Credit will be reduced at incomes over \$15,000

Earned Income Tax Credit

An Earned Income Tax Credit (EITC) reduces the tax bills for low- to moderate-income working families.

- For the 2022 tax year, the EITC is \$560 for no children, \$3,733 for one child, \$6,164 for two children and \$6,935 for three or more children
- Age requirements are reverting back: taxpayers with no kids must be 25-64 to claim the credit
- Previous year income cannot be used to help you qualify



To Note: If you are self-employed and receive payments processed through third party vendors (Paypal, etc.) for your goods or services, **you will receive Form 1099-K if the amounts processed are more than \$600, regardless of the total number of transactions.** Previously, the threshold was 200 transactions and \$20,000 in payments.

Recovery Rebate Credit

- Will not be available on your 2022 taxes

Self-Employed Sick and Family Leave Credits

- Extended refundable tax credits for sick and family leave expire after tax year 2021

Charitable Donations

- You can no longer claim the deduction for cash donations up to \$300 (\$600 if married filing jointly) if you claim the standard deductions. You will still be able to claim your charitable deductions if you itemize your deductions

PERSONAL TAX GUIDE

PERSONAL TAXES

Helpful information to provide to employees, or to find out the status of your own personal taxes.

2023 Individual Tax Deadline:
April 18, 2023

IMPORTANT LINKS

Where's My **Federal** Tax Refund?

www.irs.gov/refunds



What You Will Need

- Your Social Security number or ITIN
- Your filing status
- Your exact refund amount

Where's My **Pennsylvania** Tax Refund?

https://mypath.pa.gov/_/#1



What You Will Need

- Your Social Security number
- Your refund amount

Where's My **New Jersey** Tax Refund?

https://www20.state.nj.us/TYTR_TGI_INQ/jsp/prompt.jsp or 1-800-323-4400
(toll-free within NJ, NY, PA, DE, and MD) or 609-826-4400 (anywhere)



What You Will Need

- Your Social Security number
- Your refund amount

Where's My **Delaware** Tax Refund?

<https://dorweb.revenue.delaware.gov/scripts/refinq/refinq.dll>



What You Will Need

- Your Social Security number
- Your refund amount



CAN I PAY MY INDIVIDUAL FEDERAL TAXES ONLINE?

Yes, online payments
can be made here -
<https://www.irs.gov/payments>



FEDERAL TAX OBLIGATIONS

In general, there are 5 types of federal business taxes. Your business structure determines what federal taxes you must pay.

- **Income Tax:** All businesses except partnerships must file an annual income tax return; Partnerships must file an information return.
- **Self-employment Tax:** For people who work for themselves, this tax is similar to the social security and Medicare taxes that are withheld from the pay of most employees.
- **Estimated Tax:** In general, if sole proprietors, partners, and S corporation shareholders expect to owe \$1,000 or more when their return is filed, they must make estimated tax payments. For corporations this threshold is \$500 or more.
- **Employer Tax:** If you have employees, you may be required to withhold taxes from their paychecks, including federal income, social security and Medicare, and unemployment, or possibly a local tax.
- **Excise Tax:** If you manufacture or sell certain products, operate certain kinds of businesses, use various kinds of equipment, facilities, or products, or receive payment for certain services, you may be required to pay excise taxes. Excise taxes consist of several broad categories of taxes, including environmental, fuel, communication and air transportation taxes, among others.



USEFUL LINKS

For more detailed information about federal business taxes, visit the IRS website at <https://www.irs.gov/businesses/small-businesses-self-employed/business-taxes>

Small Business Tax Workshop (videos) - This workshop was designed to help new business owners understand and meet federal tax obligations:
<https://www.irsvideos.gov/SmallBusinessTaxpayer/virtualworkshop>

SPEAK WITH A TAX EXPERT

At SD Associates, our tax experts will prepare all the required documents, whether Federal, state or local tax returns, and because we stay informed of any new tax regulations, we'll inform you of anything new that may have an impact on your business.



NEW BUSINESS FAQ

What kind of records do I need to keep for my business for my federal tax returns?

The business you are in will affect the type of records you need to keep for federal tax purposes. In general, a recordkeeping system should include a summary of your business transactions and must show gross income, deductions, and credits. Supporting documentation, which includes sales slips (cash register tapes, bank deposit slips, invoices, etc.), expenses and purchases (canceled checks, credit card statements, petty cash slips, etc.) should be kept because they support the entries in your books, and the information on your tax returns. Keep in mind if you deduct travel, transportation, entertainment, and gift expenses, you must be able to prove they are valid business expenses. You should also keep records on assets as well, which includes property, furniture, machinery, etc. to compute the annual depreciation and the gain/loss when you sell the assets. Most professionals recommend keeping original documents for at least seven years from the date of the filing of the tax return.



What is the “corporate double tax” and how can it be avoided?

The United States' tax code places a double-tax on corporate income with one tax at the corporate level through the corporate income tax and a second tax at the individual level through the individual income tax on dividends and capital gains. The double tax can be avoided in one of two ways:

1. In most cases, electing to be an S-Corp will eliminate federal tax at the corporate level, however taxes can still be assessed on certain capital gains and passive income. (An S-Corp is treated in the same way as a partnership in that taxes are not paid at the corporate level, but are instead passed through to the individual owners.)
2. By postponing profit distribution to corporate owners, which will postpone the individual tax.

USEFUL LINKS

IRS - <https://www.irs.gov>

An online resource for Federal forms and tax information.

Small Business Administration (SBA) -

<https://www.sba.gov>

Resources for small businesses, including tools to help you plan, launch, manage, and grow your business.



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EIN NUMBER

HOW TO APPLY FOR AN EMPLOYER IDENTIFICATION NUMBER (EIN)



ONLINE

Step 1: Determine Eligibility

- Your principle business must be located in the United States or U.S. Territories.
- The person applying online must have a valid Taxpayer Identification Number (SSN, ITIN, EIN).

Step 2: Online Application

- The online application must be completed in one session - you will not be able to save it and return at a later time.
- Your online session will expire after 15 minutes of inactivity, so have everything you need ready before you start.

Step 4: Submit Your Application

- You will get your EIN immediately after all validations are complete once your application is submitted.

BEGIN ONLINE APPLICATION - <https://sa.www4.irs.gov/modiein/individual/index.jsp>

BY MAIL

You must fill out Form SS-4 with the required information. The processing timeframe for an EIN application received by mail is approximately four weeks.

BY FAX

You must fill out Form SS-4 with the required information. If the taxpayer's fax number is provided, a fax will be sent back with the EIN within four business days.

CYBERSECURITY

BE AWARE, BE PREPARED

A cyberattack can cripple your business and cost you thousands - or worse it could even cause you to permanently shut down your business. Small businesses are often targets of cybercriminals for a few reasons, including the lack of security measures in place, customers' personal and payment information, and because of the lack of security measures, it makes them an easy place to test new methods of cyberattacks before moving on to larger companies.



Best Practices to Prevent Cyberattacks

Understanding the importance of cybersecurity and learning more about best practices is the first step to protecting your business.

Antivirus Software - Install antivirus software on all of your computers and configure it to conduct automatic updates.

Software Programs - Keep all software programs up-to-date, including operating systems, web browsers, or other programs such as accounting or design programs.

Enable Multi-Factor Authentication - Multi-factor authentication requires a second step to verify you are who you say you are. It usually involves providing either something you know (pin), something you have (secure key), or a personal identifier (fingerprint).

Secure Your Networks - Encrypt information, use a firewall, and make sure your Wi-Fi network is secure and hidden. If you have employees working remotely, use a VPN (Virtual Private Network) so they are able to connect to your network securely from an outside location.

Train Your Employees - Most often, the easiest way in for cybercriminals is by taking advantage of the human element of your business. Train your employees on how to spot phishing emails, what to look for to avoid suspicious downloads, and how to enable and use multi-factor authentication. Also, training them on handling sensitive data your business collects is important as well.



CYBERSECURITY

KEEP CONTROL OF YOUR DIGITAL BUSINESS ASSETS

When you first start your business, you may rely on outside resources to help get your website, email, social media, and other key programs and accounts up and running. Or you may have an employee set everything up and manage these assets for you. This is totally reasonable, and it may be the best option for you so you can focus on other areas of the business. However, if not handled properly, you may realize one day, usually when a crisis occurs, that you do not have full control or access to your digital business assets. If your company's website or email goes down, or your social media channels are compromised, it can have devastating consequences, especially for a small or growing business.



Every Minute Counts

When your online assets go down or are compromised, every minute can mean lost revenue. If you no longer have a working relationship with the person or company that created them, and you did not obtain login information or access privileges prior to their change in status, it could mean hours or days of downtime while you attempt to locate a way to access your accounts. You may even be required to prove you are the rightful owner in order to gain access. In the meantime, emails are lost, sales could come to a grinding halt, and your reputation could be damaged. In a worst-case scenario, you may not be able to recover your assets at all, or if your website is compromised, it could be so far beyond repair that it would be best to just start over. Which means, more time and money lost.

How To Keep Control

In order to avoid the headache of lost or compromised digital assets, make sure the person setting up your accounts provides you with all of the information, including where your assets are hosted and login information (usernames and passwords). Master passwords should be changed, and for anyone who manages your assets after they have been set up, it is essential that you then assign them limited privileges to your accounts - this means giving them access to only the areas of the accounts they need to do their job. This should pertain to internal employees as well. This will protect you from theft, intentional damage, or simple carelessness.

For social accounts, make sure you are given ownership permissions, and then make sure to adjust access for others to appropriate levels.

Keep all account information in a secure location that protects it from being accessed by others, but that you can easily access in an emergency.

PLANNING FOR RETIREMENT

IRAs

IRAs allow you to save money for your retirement. Contributions may be fully or partially deductible, depending on which type of IRA you choose. So which plan is best for you? Here are answers to questions you may have that can help you decide.

Is there an age limit on contributions?

For both Traditional and Roth IRAs there is no age limit on when you can make a contribution, so long as you have taxable compensation. For a Roth IRA, your modified adjusted gross income must be below a certain amount to qualify.

What is considered compensation for the purposes of an IRA?

- Wages, salaries, tips, professional fees, bonuses, and other amounts you receive for providing personal services.
- Commissions
- Self-employment income
- Taxable alimony and separate maintenance payments
- Nontaxable combat pay (if you were a member of the U.S. Armed Forces)
- Taxable non-tuition fellowship and stipend payments

What is not considered compensation for the purposes of an IRA?

- Earnings and profits from property (rental, interest, and dividend income)
- Pension or annuity income
- Deferred compensation (payments postponed from a past year)
- Income from a partnership for which you do not provide services that are a material income-producing factor
- Conservation Reserve Program (CRP) payments reported on Schedule SE (Form 1040), line 1b
- Any amounts you exclude from income (other than combat pay), such as foreign earned income and housing costs

Are contributions deductible?

Roth IRA contributions are not deductible. Contributions to a Traditional IRA are deductible if certain qualifications are met.



PLANNING FOR RETIREMENT

Retirement Plan Limitations for 2023

The Internal Revenue Service announced the cost-of-living adjustments applicable to the dollar limitations for defined contribution and define benefit plans for the tax year 2023. Several of the limits have changed from 2022.



Code Section	2023	2022	2021
IRAs			
IRA Contribution Limit - 219(b)(5)(A)	\$6,500	\$6,000	\$6,000
IRA Catch-Up Contributions - 219(b)(5)(B)	\$1,000	\$1,000	\$1,000
SEP			
SEP Minimum Compensation - 408(k)(2)(C)	\$750	\$650	\$650
SEP Maximum Compensation - 408(k)(3)(C)	\$330,000	\$305,000	\$290,000
401(k), 403(b), 457, Profit-Sharing Plans, etc.			
Annual Compensation - 401(a)(17)/404(l)	\$330,000	\$305,000	\$290,000
Elective Deferrals - 402(g)(1), 457(e)(15)	\$22,500	\$20,500	\$19,500
Catch-up Contributions - 414(v)(2)(B)(i)	\$7,500	\$6,500	\$6,500
Defined Contribution Limits - 415(c)(1)(A)	\$66,000	\$61,000	\$57,000
Other			
HCE Threshold - 414(q)(1)(B)	\$150,000	\$135,000	\$130,000
Defined Benefit Annual Limit - 415(b)(1)(A)	\$265,000	\$245,000	\$230,000
Key Employee - 416(i)(1)(A)(i)	\$215,000	\$200,000	\$185,000
Social Security Wage Base	\$160,200	\$147,000	\$142,800