

GrowYourSideHustle-HollyWeb-Episode3-Oct25-2022


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SPEAKERS

Jennifer Roland Cadiente, Holly Webb

 Holly Webb 00:00

But what business owners really wanted was like more of a partnership, someone to really help them.

 Jennifer Roland Cadiente 00:05

So hello there and welcome to the Grow your side hustle Podcast, the podcast for entrepreneurs who want to grow their side business into a second stream of income or into their full time gig. I'm your host, Jennifer Roland Cadiente. Today, we're joined by Holly Webb, a CPA and accounting consultant based in California to talk about all the accounting things that we need to think about as we're running our side. hustles. Hi, Holly. Thanks for joining us today.

 Holly Webb 00:34

Hi, thanks for inviting me.

 Holly Webb 00:37

So why don't you start by telling us a little bit about yourself, how you got into being a CPA, and what types of businesses you work with?

 Holly Webb 00:45

Great? Sure. I have been a CPA for over 25 years. And I studied accounting in college. And I think there was just a lot of different role models in my life that I knew that were CPAs, or friends, Dad, my favorite high school teachers why? And one of my really smart buddies in high

school, took an accounting class in high school and was telling me how great that career path was. So actually, I broke my leg or something. And so I had to choose classes last. And so I was like, Oh, my friend said that accounting class is good, I guess I'll take it. So I had a few different influences. And then I really enjoyed my accounting classes in college. And also accounting is one of those businesses where if you get a degree, the firm will hire you, and then they'll train you how to do the job. And that really appealed to me. Like when you're a college student, you're like, I learned all these things. What do I do with it? And have someone tell you, Oh, well, we'll train you up. Like, you know, we'll teach you how to do a job. So I was, you know, that was very appealing to me.

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Holly Webb 01:58

So did you do that? Did you take that route? Where you worked with him for a while?

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Holly Webb 02:01

Yes, definitely. We go through recruiting and college, you know, you get offers, hopefully, you pick who you like, I worked in public accounting for a really big firm for several years. And right from the beginning, I was involved in small business, because I ended up in a more of our entrepreneurial group. So I was during the .com era of, you know, really rapid growth, lots of new ideas out there, not just on the computer.com, high tech, but also health tech, and all sorts of innovations in you know, biology, also all sorts of innovations in cellular, you know, we worked with Craig macaws companies, and everything that he tried, you know, tele destek was one of those original ones, we were involved in all of that kind of stuff. So a lot of experience with working with places that only have one person doing a county, the classic small businesses, and also even where owners are doing accounting. So even from my very beginning, I worked on that. And I eventually went out on my own, I worked for another firm to a smaller one. But I went out on my own because what I saw was that as like a big time accounting firm, we have a certain goal, which is like a report. But what business owners really wanted was like more of a partnership, someone to really help them solve a problem, help them with their day to day. Terrible things happen in business, sometimes, you know, your place burns down, or someone steals from you. And now requires special accounting that goes outside what you know people are people were talking to are going to do from their day to day. So they needed someone to help them and I couldn't just walk away from them and be like, sorry, I can only produce a report. So that's how I ended up going out on my own. And working with people I normally describe the kind of business I work with has usually one owner, sometimes two. And that person still works in their business. They are actually, you know, if it's a services company, they're performing services, they haven't grown to the point where they're just supervising their business or their industry. They're one of the doers. So that's the kind of companies I work with is where the owners are still doers. And I work with everything from personal services like engineering, designers, consultants, of all sorts of varieties. I also worked with a few manufacturing companies who make some really cool things. And then a little bit of high tech still some of those sorts of places but it's it's really if you're offering your personal services, then that kind of is kind of a fit for someone like me and my experience and I work with a lot of businesses organized as S corporations that's just ended up to be a specialty of mine. I just happened along the way. So I have a lot of those.

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Holly Webb 05:04

So do you work with businesses outside of your state? Or do you? Do you find that with accounting, you really need to stay in state?

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Holly Webb 05:12

Well, that depends. Some states don't have a lot of state regulation. So then it's not as sensitive. I would say that I mostly work with customers in Washington state where I started my accounting career, and in California, where I live now, but I do have people throughout the country, and I sometimes need them to help me know about some of the hot topics in their area, because they're going to hear about those hot topics. I'm not necessarily and then, you know, I would say that it is really good to work with someone who specialized in your state. So somebody moves away, they might choose to still work with me, because we have such a long relationship, and we trust each other. But I'm going to be the first to say I am not a specialist on Tennessee taxes. Yeah. And so there'll be things there that I would have to learn right along with them might not be as efficient as I know, everything that's going on in Washington in California. But yeah, choosing someone very smart to to someone who's a specialist in your state.

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Holly Webb 06:21

Okay, well, why don't we dive into how you would find the right CPA for you. And the one thing that I do want to make sure that we, you know, say is that an accountant, and a bookkeeper are usually two different people. So, you know, you're not maybe looking for someone to do those day to day or month to month, bookkeeping, tasks, here, we're looking at an accountant, more in an advisory role and help with the taxes. Right, that's, that's true.

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Holly Webb 06:52

And, you know, when you talk to people, you can find out what services they perform and what services they consider themselves to be an expert in, that's good to ask I'm I have areas that I consider myself to be strong and weakened. And if somebody asked me that very upfront about those things, and sometimes I'm giving someone advice, and they're going in a certain direction, and I'm like, I that direction really makes sense to you. And just so you know, I don't work in that area. So now you need to find someone else. So yeah, because a CPA can do just your tax return for you, if that's what you need. Or then they can sort of get closer like they could maybe, maybe someone else did your books, but they make a few entries. And then actually like certain CPAs, which is very rare. But again, this comes from my background, and like really wanting to like step in and partner with my clients is, I will do bookkeeping for some of them. But that's not really common. So, you know, the number one tip I have for figuring out who you would work with is asking a lot of your friends, colleagues and business connections, who they use what they like about that person. And and that's really key, because even in my little small town across California, I want to say there's like three or four different places you could get your tax return prepared. And then in just the next town down, only 10 or 15 minutes down, there's at least two places. And, you know, from my understanding of while I followed along behind a couple of those people in the work product wasn't very good. So, but you don't know that you're a business owner, you're you're doing your thing, and you see a

sign for taxes or CPA, and you go in and you like the person and they're nice, and you just sign up. So I would definitely talk to people and I would talk to more than one person. And just to get as much information as you can about, you know, what kind of relationship they have, how long they've been working with them. You know, isn't it funny on Amazon, you'll go on there. And someone will say, they'll review products and they'll say, Oh, I've been using this for one week, and I really love it. And don't ask the person who's used a CPA for you know, they just did their tax return last month. That's the I mean, then they'll be able to tell you about their demeanor, how timely they were, did they follow through on their promises? But you know, you haven't even gone long enough to find out if they got a notice or if all your stuff, right? So try to you know, ask people how long they've been working with the person. And and, you know, I it's really tricky. Like as a CPA, I sometimes hire an attorney, okay for different things in life, right. And also, I sometimes hire real estate agents. And I think both of those are kind of similar. And it seems like every time I've hired those people, I went into the office thinking I was going to interview them and just hire them. So it's like, it takes us a reinforcer to to truly interview those people and talk to them and take them up on their free 30 minute interview. And then think about it, instead of then immediately proceeding into Okay, well, now that I'm sitting here, let's just start doing my work. So and that's, that's something to think about is like, why don't you talk to the person ask a few questions, ask them what they're expert in, ask them, you know, there's areas they don't prefer to work in, hey, sometimes people will take your work, and they actually don't like that area of work. Yeah. And that can be a problem, because they said, Yes. But, but then they're not going to enjoy working with you, or working on your matters. And then that can be a problem. Because if they have a lack of interest in it, they're going to prefer their other clients. So, you know, find out if, you know, I don't prefer to work on LLCs. And we'll talk about business entities, and how to choose one a little bit. But so, you know, I only have a couple and you had to twist my arm to take them. And they're the last ones that I do. Because I don't, I don't like doing it. So those are important, you know, finding out if this is the kind of work they like to do, I really think it's really smart to have almost all professionals will give you a free meeting. Don't hire them during that meeting. Unless they're like the fourth one that you visited, and you really hated all the other ones. Right? You know, another thing is, and this might come into play, you know, it's not really applicable when we're doing this talk, right now, it's in August. But

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Holly Webb 11:30

if you find yourself in a position where it's getting really close to a tax filing deadline, and you really need someone, you might be in a crunch. So what you might need to do is hire someone to just do your extension, right? Just say, Hey, you're not taking new clients right now. But you know, would you be willing to just do my extension, and we could talk more about this after whatever the deadline is that they're facing. So I would say, you know, don't let that be a block to you working with someone who might be the right person is, you know, maybe you can get in like, that was someone that you want to get in with. And likewise, if you haven't finished your interviewing process, or you haven't thought about it a lot, maybe you could hire someone to do your extension. And knowing that like that might not take them very long, but you might need to compensate them because like, you might need to compensate them a little more than it seems like it might have been worth or took, because maybe you're gonna ditch them. Maybe you're gonna keep that interviewing process going. And then you're gonna say, hey, thanks so much for doing that extension for me. I've decided to go in a different direction, you know, no problem. You get to choose who you know, work on this stuff. So So those are some tips I have and things that I think about. And people do come to me really close to tax filing deadlines?

And I'm like, No way. Right? And if I was compelled to, you know, take them on, I might be like, Well, if you understand that, I'm just going to do an extension right now. And I'll be getting back to you in four months, I might be able to do it that way.

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Holly Webb 13:05

Yeah. And that, you know, that is a really important thing to think about is I can't announce are very busy, right? Before especially, you know, April 15, or whatever date it happens to be that year that our taxes are due. So April 14, is not a good time to be contacting them and asking them to spend a lot of time with you.

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Holly Webb 13:28

Right, and that might be somebody who's really good. Yeah, might be recommended by your friends. And they might overall have the capacity to take you on as a client. But you're asking them at the wrong time. Yeah. And so then you don't have to assume that you could never work with that person. And this can really happen to our small business owners, because, you know, you started your new thing, you follow some of the tips in this, you've also asked your friends and you follow their tips. But for whatever reason, taxis getting closer and closer, and you finally need to do something about it. And you didn't realize that now you've gotten into the zone, where CPAs aren't going to take no one's getting. Right. Right. So that that could happen. So I've I've given that tip out a lot. You know, starting around February 1, starting on February 1, I kind of have my plan, who I'm going to be working with for that reason, for an on time non extended return.

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Holly Webb 14:34

Right? Yeah. Yep. And, you know, theoretically, if, you know, you thought you were gonna do your taxes yourself. You're like, Oh, I got this. And then you start doing them and you realize, oh, I don't got this, then maybe you file the extension yourself. And then you find someone to help you do the actual filing.

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Holly Webb 14:56

Yeah, that's a possibility. That's a possibility. But I I would say that it depends on what kind of business you have. But if you can get any help during the extension process, it's always a good idea. Because you don't know what you don't know. Right. And you know, you might get advice to pay money with the extension. Or you might have set your business up in such a way that you need two extensions, you might need one for a company and one for human. And you might not know that. And then if you miss filing one of those extensions, there's no redo. So yes, you, you could potentially extend yourself if you get if you have no other choice, which will be certainly better than like, kind of filing not doing it, or not doing or not doing it or not doing it. Yeah. Yeah. So those are some options there.

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Holly Webb 15:46

Holly Webb 15:16

Okay. All right. So when someone is getting ready to start a side business, what are the first things they should do?

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Holly Webb 15:56

So now, this is going to be from an accounting and tax perspective. So it doesn't really cover everything, right. And in, you know, sometimes people ask me questions that blurred other areas, and I tried to do my best to say what I know, and what I'm not qualified to advise on. But, you know, you may or may not need a business license. And that may or may not have tax or accounting consequences, right. And it's kind of interesting, because there are situations and jurisdictions where you don't need a business license. So, so I can't cover all of that. But so you know, that that may be a precursor, though, to your accounting stuff. Because one, a couple of things is, you know, when you start a business, you don't really know how big this is going to be what it's going to turn into. So one thing to think about is that these choices are not necessarily permanent. And, you know, you may start out one way and change, and that's fine. And then I think it's really important what kind of bank account you set up. And there's a temptation to use a personal bank account. And that can work. But it's not a best practice. So your best practice would be to get a business bank account. And what you'll find is, in order to get a business bank account, you have to have your ducks in a row for what's required for that business in your jurisdiction. Right. So the bankers will almost kind of somewhat guide you in that because so there's that see, and it also goes in a circle a little bit, sometimes it's a chicken before the egg problem, like you may have to set your business up, in order to get the bank account, you may have to pay something to do that. So maybe you are using your personal account a little bit when you're starting out. Right. So that's so those are some things, you know, like thinking about if you need a business license, or not figuring out how to open a business bank account. And then pretty early on, you have to choose what kind of entity you're going to at least initially do business as. So if we're talking about personal services, and if we're talking about side hustle, it's usually going to be what we call a sole proprietor business, which is a non incorporated business. So it's not a company, it's not a corporation, it's you, you're doing something, and maybe in this side business, you're going to work for other people, and they're going to give you, they're going to pay you and give you 1090 nights. And you know, we can talk more about that. But a lot of people have heard of those, those are forms that if you go out and provide services for someone, and they pay you \$1,000, they're gonna eventually at the end of the year give you 1099. So it'd be very common to be a sole proprietor. And I would still recommend setting up a business account for that. Because when we fast forward to some of my top tips on how to organize something like this, if you have all your activity in one bank account, it really helps you. Yeah, it is not a requirement. There is absolutely no rule that you have to have all your business activity in one account. And a lot of people don't like it, because, you know, we don't want to bounce checks or you know, overdraft but name anyway. And then you know that the only advantage I see to that? Well, there's two, I guess his bank accounts have fees now. So the more bank accounts, you have you pay fees. But the other advantage is if you're all your money's in one bank account, you just have that one account to keep track of, you're not having to like move money around to pay yourself. But but other than that advantage, I think it's really helpful not only for you, but whoever's assisting you if you have this account, where everything in it is a business transaction. And what I tell my clients is I'm not Look, if you're at the store, and you're checking out, you ask yourself at that moment, is this a business expense. And if it is, you use the business debit card, or the business visa card that hooks up to these accounts. And that helps everybody down the road. So, you know, you don't even have to have a system of accounting yet, you know, you're gonna

get to some kind of method to get organized. But, but if all you had was your bank account where you had made that decision at the point of depositing something, or at the point of spending money, this was a business transaction. And that's why I use this account. It's a really great organization tool.

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Holly Webb 20:44

And especially, you know, say you're at, you know, the drugstore, buying X products, and you also realize you need some pencils, for your business, it's so easy to just buy them all on the same receipt. But it's better, it's easier later, if you have a separate receipt, that you bought the pencils, and then the receipt that you bought your other stuff that you don't have to care about, it's a lot

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Holly Webb 21:11

easier, because you can I have more than one business, and I do sometimes check out once. And that creates extra accounting work for me, yeah, and then I got a pile of receipts that I gotta go through, and I have to almost make like an expense report, like you might turn into your boss right now. I'm like, oh, on this day about these things for this business. So that that really helps. And as a, as an outside person looking at other people's stuff, you know, you don't have the same feeling for what's going on that the owner does, right? makes it so much easier. So I recommend, you know, figuring out how you're going to do business, a lot of you it's going to be as a sole proprietor, and then I really recommend having not separate bank account to help keep yourself organized.

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Holly Webb 21:57

Yeah, and you can find accounts, you know, at smaller financial institutions that tend to charge fewer fees. So, you know, there are ways to avoid, you know, paying tons and fees from having multiple accounts.

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Holly Webb 22:14

Yep, I think so too. So you just look and see what they offer. And sometimes if you've been with someone for a long time, they might also offer for you to open a second account with them might move money between those accounts. So you know, I guess when you're getting started, what I think about is, you know, people will say I'm just getting started, what do I need to do? And I'll be like, well, you know, it's your first year, we kind of don't know where this is going. So for now, the biggest thing that you need to do during the year, before I tried to sit down and work with you at the end of the year is you need to know how much money you made, and how much money you spent. And, you know, I don't mean to oversimplify it. But every all the magic can come later, all the organizing that into different categories, or, you know, knowing which ones are deductible or not deductible. If you are really concerned about you know, I want to buy this, but I don't know if it's deductible or not, you know, then yeah, that makes sense. And, you know, as far as that goes, we have this concept that comes from the IRS called ordinary unnecessary, which generally means if you were doing that exact same job, and you were

working for someone else, would that someone else think that they should be paying for these expenses? You know, like if you're an employee, do you need the pencils? Yeah, you did? Yeah. So you know, and it's like it's in there's, you know, a lot of nuance on this, of course, you know, because there can be special situations. And then you do need a CPA to tell you like if you're going to be able to deduct that and how but it's it's often generally what's traditional and normal for that industry, what's considered normal business expense. And you know, right now we're in a strange and special time where restaurant meals for business are 100% deductible. Right? And but meals is always a special category. I always emphasize meals, meals and mileage pretty heavy with my clients, because those are areas that get the IRS pretty excited, and where they have record keeping. And it's because those are areas where it's really easy for it to kind of blur whether something's business or personal. So for meals, you really want to keep the actual receipt. Yeah, no matter how much the meal is, and, and for miles, driving your personal car for business purposes. You want to keep as good records as you possibly can. And I love it when someone brings me an actual mileage log. Pretty rare these days, but a reasonable figurin have, you know, that's math, that's not at the end of the year, oh, I drive about half the time for work. But in actual layer, number of trips, or a calendar, we just wrote down, that's what I do personally, is, if I drive for business that day, I just write in my calendar, what I drove for business that day, and then I added up, you know, quarterly, approximately, so it's not a big chore at the end of the year. So that's, you know, see, people are really overwhelmed, because it is a big deal to start a business. And it is a big deal that you're doing something on your own. And this doesn't come with a W two from an employer. And so at the end of the day, you are the one that's going to be responsible to either by yourself or with an accountant put down on a piece of paper that goes in a tax return, hey, here's my revenue that someone paid me for doing this work, whether whether someone paid you or whether you're selling something, and then here's my expenses that it took me to be in that business. And here's also the miles that I'm going to translate into an expense. And at the end of the day, here's my profit or loss from that activity. And so, you know, that's not how we do our taxes for as employees, someone else just spoon feeds us that information. So I don't want to pretend that it's not a big deal, because it is, but but at the beginning, don't have to be worried about all that. Because especially if you do plan to hire a CPA, you don't have to know all the math calculations, you don't have to calculate the self employment tax, you just have to give them the accurate numbers on what you made and what you spent. And it's by calendar year, so that matters in it's can't be all like blurred together and crossing years. It's it's based on when it happened. So that bank account that you run everything through that's going to help you a lot. Having a folder, make sure you stick in the receipts of everything you think is for business, that's going to help you a lot. And an accounting software, I would say for most businesses is optional. Yes, no, it's not necessarily mandatory. We don't have to go out and buy a QuickBooks subscription for most businesses right away.

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Holly Webb 27:14

Yeah, and that helps minimize, you know, some of those startup costs, if you are really, you know, trying to bootstrap this.

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Holly Webb 27:22

Yeah, that's right. Yeah, if you're gonna go and do gigs, somewhere, you don't need QuickBooks, and these accounting software online are getting quite expensive. So work with your advisor, this person you're going to interview and sit down with and find out if they like

your industry, and if they have room for you, and all this stuff, to see if they think that you need it, or what would be good record keeping for you for your situation. I mean, I have a massage therapist who has a notebook, spiral bound notebook. And she puts, you know, January revenue on a page, and she skips a few pages, and she puts January expenses. And that's how she tracks her business. And every date that she does a massage, she wrote the date and the amount she got on that January Revenue page. And every time she buys something that she considers to be for her massage business, she writes it down on the expense page, maybe she saves the receipt, maybe she doesn't. And you know that you can talk to your CPA about at what level they want you to keep the actual receipts versus that bank statement we talked about. And then at the end of the, at the end of the year, she adds up the pages, you know, and then she has her revenue for the 12 months, she adds it up, I have no problem doing your tax return from that, I think it's great. I got a concrete guy who does the same thing. He has like a page for every type of expense, you know, a telephone page, and a concrete supplies page and Jobs page. And he just writes it down. So these these are those are non computerized methods. And then obviously, we can get into like Excel or whatever. So um, so the actual record keeping software, that's not your big thing that you're worried about when you're getting started. And then we talked about Jennifer and I talked about something beforehand I want to back up to is since most of you are going to be doing a sole proprietor business. And as I said before, that business is considered to be like part of you, like you and your business are the same entity, then you can for the most part, do business with just your social security number. And that would be as long as you don't have any employees working for you actual employees where you're going to give them a W two. So as long as you don't have someone working for you as like, let's say you know, a regular employee, then you could run your whole business off your social security number. And I recommend against that for privacy reasons purely for privacy reasons. So what you can get instead is called an E i N Employer Identification Number, you have to have an EIN if you want to have employees and give them a W two, and you can get that at the [irs.gov](https://www.irs.gov). And it's something really funny is you get it online totally by yourself Self Service, but they're only open for them to issue this to you Monday to Friday during business hours, which I think is hilarious. So Monday through Friday, during business hours, you can go on to the IRS website and apply for an EIN, and as a Schedule C is what the sole proprietor form and the tax return is called. And you can apply for a Schedule C, sole proprietor EIN, and you don't have to put your business name in there. Because, you know, it's it's actually irrelevant what your business name is how you're kind of doing business in the world. If you're Jennifer's jazzy, you know, book writing, or if you're only super pretty nails, or if you're Holly's, you know, consulting or Holly's babysitting, that that all doesn't really matter, just sign up for the EIN under your name, your first and last name, middle initial, if you want. And now you can have that when you open your bank account, you'll write it down on it, it'll be on a page in your tax return. And then if somebody's going to give you a 1099, you can give them that number. And you're not giving them your social security number.

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Holly Webb 31:28

Yeah, I think that is such an important piece. Because, you know, in my business, I send W nines through email all the time to clients. And email is not a secure form of communication. So I'm much happier sending that ein on a PDF through email than I would be sending my social security number.

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Holly Webb 31:50

Yeah, and a W nine is where someone wants to pay Jennifer and they say I want to pay you give us all your important Deeps. And the W nine is where you put your deep, you know, so your name, your EIN, your address where you want to get this money. And that's all the W nine is. And you know, some of us, like, you know, some less formal companies will be like, either give me the W nine or just give me the deeds, you know, and like, but so at the end of the day, you want to be putting your EIN down on this W nine not your social, because why do they need your social exam. Even if you're a gig worker, you might actually give someone else a 1099. Because maybe you got a really big gig, and you needed some help. And you hire them like, hey, come work with me 200 a day for four days, it's \$800. Well, you need to give them at the end of the year 1099. And it's going to have the givers business number on there, which is you. And that will be your social. And a lot of people do that. And I just I'm the accountant. So I see Jennifer now Jennifer's accountant, and she's been paid by all these places. And I'm like looking at these people that are giving Jennifer their social because they paid her and I'm like you're crazy. Don't do that. I mean, if you already did that, here's another thing is you know, some of you might be sort of partway along in this journey. And maybe you already did that. That's fine. You can switch anytime. That's one of the beauties of being a sole proprietor is there's some flexibility there. So go get an EIN now. And then tell the people who pay you Hey, I got an EIN, here's my new W nine, or I got an EIN Can I give you the number and make sure that they use it?

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Holly Webb 33:43

Yeah, no one ever gets mad if you change from your social to an EIN.

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Holly Webb 33:49

Nope. And you can also do it like if you pay people during the year and you haven't issued the 1099 yet because that's typically done in January, you can still get that ein on like December 20 and use it to get give them the 1099 in January. So if you've been doing it this way that I was just making fun of sorry. It's not that bad. It's just that people don't know that they can do it and they they they don't realize that it's there's an easy way to protect their own private information. So do

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Holly Webb 34:23

me free. There's no charge to file it takes like five minutes tops.

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Holly Webb 34:28

Yeah. The only two things I say or watch out on the EIN are. Number one, they give you some little letter. It's an actual letter. Even if you do it online. It looks like a letter. It says right on there. We will never reissue this letter. Yeah. So print it out. Yeah, print it out. Maybe print two copies, yeah, put it scan it into your computer or save it as a PDF. Like you need that forever. And then the other thing is it does get a little confusing on what to do if you have more than one business, or do you want to get to EIN? But my so my, my answer to that question would be, you need to ask an accountant for advice for your situation. But the but the point I want to

make the watch out is, don't forget that you already have one. Because you could make problems for yourself, if you forget, and you get a new one. And then they're similar, you know, your name first and last, and one has your middle initial. And now you're using too, it could cause us some problems down the road in the great Borg of the IRS computer. So those are my two watch outs is remember that you got one? And yeah, and save that letter. Yeah.

H

Holly Webb 35:50

Yep. So we've talked a lot about filing taxes. I know that, you know, we don't ever really know how much we're gonna have to pay that first year. So it can be a big surprise when you fill out those tax forms. And you could end up owing a lot. So what can we do to help throughout the year to prepare for that?

H

Holly Webb 36:12

Yeah. So let's say that you don't have the opportunity to work with a CPA, to help you figure out your magic number. And so I want to use that as the first example, then I would recommend that for federal purposes, that you set aside 40% of what you took in. And the reason I come up with that number is, because I'm saying you did not get customized advice, this is the only advice I got, I want you to estimate Hi. And secondly, there's a lot of side gigs you could do, where you would basically have no expenses, you could live in the city, and walk to your gig. And the gig could be purely professional services, like where you're acting, or teaching, you know, just performing doing something that you're performing. And you could also have truly no expenses. And you know, I think a good CPA will make sure we've squeezed in some kind of expenses. But you know, maybe your mom pays your cell phone bill, she always has, you know, since you're in college, and you live with a friend who pays all the internet, so you don't have internet expense. And here, I'm just CPI keep asking, anyways, at the end of the day, you might have no expenses. So if you have all revenue, no expenses, I think you really could get into this 40% situation pretty quick, because you could be 15%, self employment tax, and 25% overall personal tax rate, all of which come together on your one, regular old 1040 that you've been always doing at 40%. And that doesn't include state taxes. Now every state is different. But I still think you know, hopefully, you're gonna squeeze some expenses in there. So 40% If no one's telling you any better 40% is gonna make you very prepared. Now would be nice to get a little advice, like just a high level advice from this person that you hope to work with and what they think, you know, the tax rate might be for you. Because if your side gig is making crafts, and selling them at a craft fair, you might have a lot of expenses. Yeah. So then if we're basing how much to set aside towards this future tax bill off your revenue, that's might be really inaccurate for you. What if you're making mosaics, and you're have heavy duty board that you're putting it on? And then you've got your mortar, and then you've got all of your ceramics that you bought? You know, what if you going in a totally different direction? What if you have a loss the first year on your site is business? Yeah. What if you took in \$5,000 of revenue, but you really clearly lost money in this business for the first year, then you're not only \$2,000 in taxes, and what if Holly's advice to set aside 40% is like making it so you can't eat? You know, that's not. But so so you know, but it could definitely be up to 40%. And we're in the previous example. So I guess that shows you look, if if you don't have a lot of expenses, you were you pretty smart set aside 40%. If you want to be really conservative review of state taxes, you might set aside 50%. If you have a really good idea that you have a loss from this business, maybe it's less critical. Depending though on what your expense is, you know, non accountants

have a different idea of whether they have a loss from their business, sometimes then accountants, because someone might say, Oh, well, my business is acting. And in order to act, I had to buy this building, because there weren't any performance. is in my area. So I bought this building. And now we put on plays and performances in this building. And so I have expenses of you know, \$100,000. And I'm like, sorry, that's a commercial building, you're going to depreciate that over 39 years. So and you bought it in November,

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Holly Webb 40:19

you know, your expense for your \$100,000 building, he just told me about actually, you know, \$500, and you do have profit. So, so you might not always know what things are an expense. And so you might not be the best judge. But if it's personal services easier to tell. And if you're selling something, you probably have a pretty good idea. So, you know, in those kinds of cases, if you're making something like I was talking about the crafts and selling them, you probably have a pretty good idea of not your revenue in that case, but your profit, sort of gross that you made before you consider things like advertising or your cell phone that I was talking about your internet. And then maybe I would say, in those cases, you're looking at, you know, saving 25 to 40% of that number. And you're saving it in your own bank accounts, because this first year, you're not really obligated to pay it to them during the year. Because what you're supposed to pay in during the year is really based on last year.

H

Holly Webb 41:23

Right. Right. And so you typically, if you don't get paid enough, after that first year, once you know, you know what, what you've done, then you might have to pay a penalty, which is why we all worry about paying our quarter release.

H

Holly Webb 41:40

Yeah, yeah. So your first year usually wouldn't have to pay it in advance. But like that, we do want to avoid that shock. You know, if you're very successful in this side business, and your account said, Oh, don't worry, you don't have to pay and during the year, Gaby, true. And then you know, you can do consulting and make \$100,000 And oh, 40,000. And you want your CPA to tell you a 40,000 You know, on March 15. And by the way in or let's say April 12th. And by the way, it's due in three days, that's not good. No, and then oh, and then now you are going to do quarterly. So also you owe first quarter right now. And on April, another \$10,000. So that's where getting with your CPA early is good, because they can help customize to you how much they think you might be setting aside in the beginning. And then you can kind of revise that after you file the first time. Now, an one idea that Jennifer brought up when we were talking before is that if this is a side hustle for you, and you have a job, where you get a W two, then one way that you could make it easier for you is instead of having to go through this process of paying quarterly fees, where you turn into money to the IRS and your state may be every quarter for the whole year so that you don't end up owing them penalties or money. You could possibly just crank up your withholding at work to cover it. Like if at the end of the year, your CPA says oh, well, you owed business have to you owe \$2,000 on your side hustle. And so because of that, you know, you're writing check for \$2,000. Well, so that's 500 a quarter, or you know, it's a little less than 200 a month. So what you might want to do to just make life easier

for yourself is just go to work and say, Hey, can you take out an extra 200 a month from my paycheck. And that's really nice, because then it doesn't sound something to remember, it's not something to keep track of. And it gets treated as paid in perfectly evenly throughout the year. IRS, instead of like, if you make a quarterly payment late, then they really ding you on that. So that's a lot of people hate quarterlies. It's just one more job to do. It's a hassle. So that is a great tip. Another thing that can happen sometimes is what if you normally get a refund, like a lot of people, especially two earner families that have jobs, the withholding is more than enough to cover them. And so they get this big refund? Well, maybe you don't need to do anything. Maybe you just won't get the refund, it'll go towards your site. So those are all I would say, you know, kind of at the end of the first year you take assessment, and hopefully you're working with someone that can help you. So I'm trying to think of like, you know, what other considerations for you. We're setting money aside. We're not necessarily making quarterly is our first year because we don't have to.

H

Holly Webb 44:52

A one thing I would recommend and this is a mistake that I see businesses make is they'll pay people during the year. And then they realize their accountant tells them at the end of the year, they have to give these people 1099s. And now they can't find them. Yeah, worst case scenario, the IRS can tag you for the taxes, they were supposed to pay on their income, if you don't get nine. So you don't want to do that, you'll find some CPAs, who are so rigid, that they won't deduct the expense for you, because you didn't issue a 1099. So you really want to get that information before you pay people be a stickler about that. Like, if you have someone who's helping you out who's going to work for you. And even if you don't know, if you're going to reach that \$600 threshold by the end of the year, if it's the kind of work that qualifies for 1099, and you're paying them 200. Now, say you need their info from them. And you know, ask them to do the W nine, and tell them that, you know, you're not going to issue them a 1099 unless it reaches the threshold, but that you just don't pay. You don't pay subcontractors, that's what they would be to us. And so printer, you don't pay them without the information to make sure that you can follow the rules at the end of the year. And that also helps you find out who won't work with you. Unless you get because some of them at the end of the year, you'll be like I paid you \$1,000 can have your details, you can still find them. And they're like, Well, hi, I'm still here, the So my number, no, I'm not giving you all my information. And I would have never done that job for you if I knew that you're giving me a 1099. So it's a good conversation to have. And honestly, I have clients who need to hire certain people who will not let them issue them a 1099. And so that's a that's a decision that has to be made, you know, how badly do you need that person? What is your CPA, think about deducting that expense? You know, are you going to possibly use that person anyway, maybe not deduct the expense, I've had clients choose that, that becomes very specific to the situation at hand. But you know, it's good to know, it's good to know. And it's better to find that out in the beginning than later. Right? Maybe, maybe if the person knows from the beginning that they're doing a 1099 Maybe they just negotiate a different rate. Maybe you are going to pay \$20 an hour, and they're like, Well, I'm fine with that. But if you're gonna give me a tender night, I want \$23 an hour, and maybe everybody can live with that. So that's a headache that you can avoid by doing that upfront. Can you think of any other concerns that people starting a new side hustle would have about planning, those kinds of reporting?

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Holly Webb 47:56

I think we covered a lot of stuff. And, you know, there's always that caveat that we can't provide specific advice, because there's so much that depends on your situation outside of your side hustle, the things that you're doing in your side hustle, the regulations in your state in your country, if you're, you know, if you're not in the US, there's just there's so much that you really you need to work with someone who knows your situation, specifically.

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Holly Webb 48:27

You know, I have had a lot of people come to me who have been doing their own returns. And I had never done a return where I said, Oh, this worked out so great for them to be doing their own returns these last three years. I feel so embarrassed that I'm taking their money now. No, yes. Never like that. Um, you know, people ask me who needs a CPA? And I say, if you are in business, you need a CPA. Yeah, there. It's not a guarantee that the savings your CPA will provide to you will cancel out their fee. Right? It's that's not a guarantee. But I'd say it's common, that that is the case. So they end up paying for themselves. But if they don't pay for themselves, I think there is a lot of value in knowing that you paid what you needed to pay. And not more than that. Yes. And you're not guessing about that. And I can tell you there's a lot of people that have a lot of anxiety, that maybe they did it wrong, and kind of feel bad, like maybe they under reported and they're a bad person, and they didn't. So just knowing that I think is really helpful. And then it gives you the confidence that you know you followed all the things you're compliant. You're a small business. So in the big picture, the IRS is not out to get issue, then the people they're looking for are people who aren't participating at all, who aren't trying at all, they aren't even filing any tax return at all. And they are receiving income. So if you're not participating at all, yes, they're looking for you. You know, they just announced that they're going to be providing additional funding for the IRS to step up enforcement. And they specifically notated that this is targeted at individuals earning 400,000 or more. So, you know, filing this and doing your best, you're gonna do fine. You're you're not, you're not putting yourself at risk by participating in this process. And then you're gonna feel better that you didn't overpay. And it's really more common for me to come to people and say, well, don't you have a cell phone? And they're like, Oh, I didn't think about that. And I'm like, Well, you know, don't use that number for to some extent, for this side hustle. Don't you have an internet connection at home? Do you have a space that you use for this work? Did you drive anywhere from this work? I seriously have to hound certain people about whether they drove for that work. They'll be like, Well, I do drive to the post office to mail my clay fellows that I make. And I'm like, Well, how far is it to the post office? You know, how many times how often do you go and and you know, okay, maybe it only came up \$200 deduction, but you know, 15%, self employment tax 25. So you want to pay them extra 40 bucks. And so you have the CPA, they're there, they're giving you the best possible outcome for your situation, that's their job with your facts and circumstances. What is this, you know, best outcome with following the rules. And then now you have confidence that you did it right. And then also, if you're ready to graduate to another business entity, you have better records. Also, these kinds of preparing these forms properly can open the door to other benefits. During COVID, we have the PPP program. And so everybody who was with me, prior to COVID, as a client, I found COVID benefits for every well I analyzed every single one of my clients for COVID benefits. And if they were eligible, we applied. And then in addition, you have all this data here. So now if you want to graduate and be a bigger type of business entity, you have the information you need, it's already organized by an accountant. So everyone, I believe, even if you just have a rental property, you need an accountant, if you're in business for yourself, where you're not getting a W two, you need an accountant, and you know, absolutely find one that fits your budget. You don't need, you know, the fanciest firm that has special talents in areas that you don't work in. But you're gonna get

benefit from it, you're going to reduce the error rate, you're going to find out about deductions you never knew about know, my tax software tells me all the time about deductions I didn't know about. So you know, having an accountant with good tax software, it's going to help you get everything that you can out of the process. And I would say one more thing. And this kind of can be its own deep topic, but I'll keep it as a top level topic is

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Holly Webb 53:30

you could be doing your very best in your side hustle, and you may be losing money. And so reporting this activity on your return, instead of ignoring it, like doing nothing with it might actually provide you a tax benefit against your other income. Yes. So you know, you might be afraid of this process and thinking it wasn't, you know, that you didn't make that much money. And you're just going to not look at that. But if in fact, you had, let's say a loss of \$1,000, that and you work at a job, which is how you support yourself, that loss of \$1,000 goes on to your return matches up against your income from your job, and reduces your overall family income by \$1,000.

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Holly Webb 54:19

Right. And, you know, that may not sound like a huge amount, but it could be you know, that the tax table? It could take take you down one level? Yes. So that certain amounts of income are not being taxed at the higher rate. Yes,

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Holly Webb 54:37

yes, it could do that. It can make you eligible for certain programs, look at the stimulus payments we all received or many of us received, you know, acknowledging this activity that's engaged in for the purpose of making a profit. That's one of the criteria for setting down a Schedule C on your return and reporting this income and expense in that on that particular page. cuz you're saying, I've undertaken this for profit, it's my intention to make a profit on this. And there are some complexities. And there's some rules about like, you know, how long can you take a loss, if you're showing a loss on your side hustle every single year for five years, maybe this is a hobby. Yeah, maybe maybe really like writing. And every once in a while someone pays you, you know, for an article, but you can't expense your new computer every year, and your new iPad every year, and your whole cell phone bill and your whole internet bill. And now you have this loss, because you only had, you know, one article for \$200. Maybe after a certain amount of time, that's not going to fly anymore. But that's again, something that a CPA knows about and can guide you on, like, you know, when this is going to be something you're going to keep on your return and when it's not when it might fall into hobby rules, which is its own category. But I think that's something to think about that. People might be like, Well, I'm not making money at this right now. So I'm not doing my tax, I'm not doing my taxes. Well, by the time you start making money, then you lost, you know, then you didn't take the loss those first three years when you were ramping up. So I don't know, maybe everybody thinks about how they can get the deductions maybe I got it back. But but that but that is a thing. And you'll see that advertised on the internet is one of the benefits to a side hustle is a tax write off? Kind of like, Oh, are you supposed to be making money on your side? But you know, some

businesses do start out with a loss. And that's part of being in business. And in a company, you know, sometimes you need to build up like our, our person we were talking about that makes mosaic art. Well, maybe they had a lot of expenses getting started up in that. Yeah.

H

Holly Webb 56:46

Yeah. And so then the next year, they don't have to pay all those things that they needed to start up. So then they start earning a profit. And they get the benefit

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Holly Webb 56:54

of that long term benefit of the last that first year. Yeah. Or you have a bad year, you know, I mean, look at all the businesses that you know, had a tough time during COVID. You know, like, I have a friend who owns a fitness gym. And I'm pretty sure he took a loss. Yeah, his overhead costs stayed similar the same. And he paid a lot of his employees or as much as he could. And ultimately, you know, he lost a lot of revenue. And then when gyms open back up, they're not at full capacity. So, you know, maybe he was going along good for a long time and pain, paying his share of taxes, and then he had a loss. So, so yeah, that's I guess my bottom line is, when I almost I very typically will mend returns, when people come to me. I'll say, let's show me your last return, I'll look it over, you know, if they did it themselves, it would not be uncommon at all for me to find areas to improve. And I, I'll compute and see how much was left on the table. And if it's enough, I'll even go in a min one or two years and get us started that way. So that's it. That's a possibility. But you know, not the first choice, right? Because it's more red tape. And, and, you know, a human has to look at that. And when we're, if we're e filing our returns online, and they're within normal parameters, humans aren't really looking at that. It's just going through. Yeah.

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Holly Webb 58:22

Okay, so one of the reasons that I wanted you to join us is that not only you know, are you an accountant who works with small businesses, but you also have a side hustle. In addition to being a CPA, you're a color street stylist, how did you decide to start that?

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Holly Webb 58:38

Yeah, color Street is nail polish. And CPAs aren't normally known for being into nail polish, I don't think. And it's a 99% dry nail polish that you buy in a package that you can just stick on your nails, and you're ready to go in like 2030 minutes, maybe faster. So I found out about color street nail polish and event saw somebody with absolutely adorable Christmas nails and just had to try that myself. And my mother and I both tried it the same day. And my mom's experienced at doing side hustles and she has several and she could tell right away that that was a product that she wanted to sell. She really thought it was a quality product better than anything else she had seen better than anything else she had been selling. So she started signed up immediately. Like the next day. I took a little bit longer. What I found is I just absolutely loved it. I was telling all my friends about it. I was buying them and giving them to friends. And and I was like, you know, I could get paid to do this. And I'm already like a

cheerleader advocate for this product that I absolutely love. And so and I had a lot of other friends you know that I had met through wearing the nail polish by Nail polish, you know, sharing pictures of the nail polish. So I had other friends besides my mom that were selling it at that point. And so then I realized that yeah, I this is something I enjoy. And one of the reasons why I decided to do it is, you know how my day job my full time job that's very serious. And as I said at the beginning, I've been doing it for over 25 years. So in a way, it was something to do just for me. So yes, there's a business purpose to it. I do sell products, I'm coaching people and their customers. But it's fun. For me, it's something I really like. And my primary reason for doing it was just to delve deeper into something that I was really enjoying. And, hopefully, you know, I take the same, you know, with my accounting clients, I like, chose that profession, because I want to partner with someone didn't want to just be the person who came in and did a report and just left. And it's the same thing when I sell nail polish on. If they tell me they like red. And then they want to order a certain new color. I'm like, oh, but did you know that that one's really cheery, and you can see through it and that would you like that or not. And they're like, Oh, I wouldn't or somebody like perfect. That's. So I'd like to be the person that knows a little bit more about the thing that they might be spending their money on to make sure they're totally happy. That way, I'm the guinea pig, maybe because I've seen every single one in my hands. So I like I get to be the guinea pig. I'm like the pre tester, I guess. And increases the chance that my friends that I'm telling about color street nail polish, enjoy the ones that they get, because I've already seen them and told them which ones I started like. So it's been really fun for me. And you know, it's amazing. I've seen so many ladies really exceed the average and go above that and get into it. And I have quite a few friends who have ended up stopping doing their regular day job for their color street side hustle, and it's become their career. And I don't think that's me, because I think I have a passion for accounting. And I have you know, I've been focused on it for so long. And I think it's in something I'm really good at. And I'm I'm most likely going to continue to have that be my main thing. But it's really inspiring as well to see the people that have thrived in that and been able to transform their own life. And I definitely think we have people listening to this that fall into that category where they're looking to transform their life and pursue their passion.

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Holly Webb 1:02:44

Yeah, there's always people who, you know, want to have those multiple streams of income, want to continue the stability of a W two job, you know, that maybe pays your benefits and all that fun stuff. While you know, still doing something on the side, something that's just for them. But there are a lot of people who start the side hustle with the hope that it will be their main hustle. Yeah.

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Holly Webb 1:03:09

And you know, what? We're, I think we're done. So we're gonna officially not open up more new topics, but we did not get into true entity selection, like what kind of No, we did not. And who should be an LLC and who should be a corporation. And I had mentioned I specialize in S corporations. But you know, it's kind of okay, we didn't get into that, because the answer to that question always is you have to talk to your attorney about that, yeah, I cannot really truly advise you, I can sort of say, these are some of the differences in the tax consequences of these entities. But then at the end of the day, choice of entity has a very large component of liability and liability, I guess I was gonna say risk, but it's really more liability. And, and really

only an attorney can tell you what entity they think protects you, and is the right structure for you. And insurance kind of goes hand in hand with that as well. And so I'm neither licensed insurance agent nor an attorney. So but that's something that people can look into, on when they are considering. And it's not just a thing, you know, we're like it says on aspirin, like ask your doctor before you take this. Right. I really would encourage people to consider finding a business attorney to advise them on something that's significant.

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Holly Webb 1:04:35

Yes. Yeah. You know, like, if you're setting up contracts, you want to you want an attorney's help with that. You don't want to just you know, this is what I think it should say go to someone who knows.

H

Holly Webb 1:04:49

Yeah. And how do you find an attorney? You know, it's the same way that I was saying you find an account and you talk to your friends and your business colleagues, and your business. You know, these are always just your friends. They can be personally your Doing business with someone you don't really know that well, that's not not an awkward question like, Hey, do you have a business attorney? Is that somebody you would recommend? What do you like about them? Do you think they're taking new clients? Should I talk to them? And then like I said, do the interview the 30 minutes, don't hire them on the spot to take the same idea. And that way, if you want to get advice on choice of entity, that's really the direction ago.

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Holly Webb 1:05:26

Yeah. Yep. I think that's, that's great. And I definitely, definitely want to talk to an insurance person to talk about what kind of insurance people need. Yeah, in the

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Holly Webb 1:05:38

future episode. Yeah. And I want to listen to that one, because it's a really complicated, interesting area. I, I have some trade groups that I belong to where we have an insurance person in the trade group, and they'll occasionally give presentations is always very enlightening. Yeah.

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Holly Webb 1:05:58

Yep. All right. Well, thanks again for joining us. I know that you mentioned that you're not taking any new clients. But how about if people want to learn more about color street nails? Where can they find you there?

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Holly Webb 1:06:10


All right, if you want to have beautiful nails, or give them as a gift to someone else, if you want someone in your life to have beautiful nails, I would love to talk to you about that. Very fun and very easy. And I have a basic side hustle website. And it's rodeo.nails.com, rodeoONAILS.com. And color Street is a major company, you can find their website online. But if you go to my website first, then by then by going through that my website, you'll be assigned to me as your stylist. It'll be very easy for you to reach me and I absolutely love to help people pick out beautiful nails.

 Holly Webb 1:06:56

Yep, they're very fun and very easy to use.

 Holly Webb 1:07:00


And we college nails, so I can't wait to put different colleges on my fingers.

 Holly Webb 1:07:05

I know. Well, I'm only going to put one college on my fingers. But I'm very excited about it. All right. All right. Well, thank you again. I hope everyone listening has learned a ton. I have learned a ton. I appreciate your time.

 Holly Webb 1:07:20

All right, nice to talk to you.

 Jennifer Roland Cadiente 1:07:22

And here are our top takeaways from today's episode. First, get to know more than one accountant before you hire one. Check the regulations where you live regarding business licenses and structures, especially if you're working with an accountant who is in a different area. Keep good records of things that might be deductible so that your CPA has what they need when they're filing your taxes. Remember, you may not need fancy accounting software. Sometimes just a simple spreadsheet or even a word document will work to keep the information that you need. And finally, get an employer identification number so you're not sharing your social security number with everyone that you're doing work for. Thanks so much for joining us today. Don't forget to subscribe so you won't miss any of our future episodes with other side hustlers and some experts to help you deal with some of those small and large issues that come up when you're running a side hustle. I'd also love it if you could share this episode with any of your friends that you think would be interested and leave a review and a rating in your podcast app. See you next week.