Toolkit, Preparing for Tax Time

Prepare for Tax Time
(Originally appeared in 2011 Successful Business Handbook)

Tax Time: Stress Less, Pay Less
(Successful Practice Handbook, page 145-147)

5 Burning Questions for Tax Time: What Bodyworkers Need to Know
(Originally appeared in Massage & Bodywork, March/April 2014)

How to Find the Right Accountant
(Successful Practice Handbook, page 155-156)

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prepare for tax time

By Lisa Bakewell

Tax time can be stressful for just about everyone, but it can be downright terrifying if you’re unprepared. Following are some suggestions for keeping excellent business records, preparing receipts, understanding allowable deductions, and knowing options for tax preparation.

KEEP ACCURATE RECORDS
Keeping accurate and detailed records of your income and expenses is an important key to building a successful massage therapy or bodywork business. Accurate and up-to-date records will also make it easier to prepare your taxes and will give you a realistic view of your net income—the income you’ll ultimately pay taxes on.

Figuring your net income for the year is an easy process if you are prepared. First, you’ll need an accurate accounting of the total amount of money paid to you for massage and bodywork during the calendar year—your gross receipts. You can determine your gross receipts by looking at your client logs, adding up the total number of sessions you did during the year, and computing the total fees you earned, including tips.

Next, you’ll want to figure out your business expenses—what it costs you to run your business for a year. Your business expenses help you lower your gross receipts and help you calculate your net profit.

An easy way to keep an accurate account of your business expenses for the year is to save all of your receipts for goods and services in a manila envelope and keep a running list of expenses on the outside of the envelope. Each description should include the date, which company or person received the money, what the expense was, and how much was paid. By keeping track of your expenses this way, it will be easy to tally up your receipts for tax time.

It’s OK if you didn’t maintain good records during the year, but it will
take you a little longer to gather your documentation and tally up your total business expenses for the year. Start by gathering all of your receipts, cancelled checks, and any credit and/or debit card records you can find pertaining to your business. Next, make a list of categories, with an additional “miscellaneous” category, so you’ll have a place to park expense receipts if you don’t know what to do with them right away.

Now, using a separate sheet of paper for each category (linens, paper goods, continuing education fees, etc.), list all of your expenses from the receipts, cancelled checks, and credit/debit cards. Total each list. You are now prepared to answer questions from your accountant or tax preparation software pertaining to your business expenses.

FILE FORMS
The Internal Revenue Service (IRS) says that if you are in business for yourself, or carry on a trade or business as a sole proprietor or an independent contractor, you should consider yourself a self-employed individual and must file a Schedule C or a Schedule CZ. Also, as a self-employed individual (with net earnings of $400 or more), you are required to pay self-employment tax by filing Schedule SE, in addition to your 1040 and Schedule C-EZ. Additionally, if you had a tax liability last year, you may have to pay estimated tax for this year.

Figuring your net income for the year is an easy process if you are prepared.

The IRS requires all businesses to pay quarterly estimates of profits, if both of the following apply:

• You expect to owe at least $1,000 in tax after subtracting your withholding and credits.
• You expect your withholding and credits to be less than the smaller of 90 percent of the tax to be shown on your tax return, or 100 percent of the tax shown on your last year’s tax return. Your last year’s tax return must cover all 12 months.

If quarterly payments are not made, a penalty and/or interest charge might be owed, and though the penalty might not be a serious problem, the business owner who delays making adequate estimated payments might be shocked to see what he or she owes on April 15. Tax estimates are due April 15, June 15, September 15, and January 15. (See IRS Publication 505, Tax Withholding and Estimated Tax, for more details. This and other publications are available at www.irs.gov.) To streamline the process, set up automated payments online through the Electronic Federal Tax Payment System (www.eftps.gov). Payments can be set up in advance to be withdrawn from a bank or credit union account. The service is free and can save you from last-minute running to the post office.

SORT PERSONAL AND BUSINESS EXPENSES
It is important for MTs to realize that business expenses may be deducted only if they are ordinary and necessary for the business of massage and bodywork. With that in mind, personal, family, and living expenses are not deductible under any circumstances, except when something is used partly for business and partly for personal purposes, according to the IRS. In this case, you can divide the total cost between the business and personal parts. For example, if you borrow money and use 70 percent of it for business and the other 30 percent for a family vacation, you generally can deduct 70 percent of the interest as a business expense. The remaining 30 percent is personal and generally is not deductible. (See IRS Publication 535, Business Expenses, for more information.)

CLAIM BUSINESS EXPENSES
The IRS tells us that “to be deductible, a business expense must be both ordinary and necessary.” An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your trade or business. So, what are ordinary and necessary business expenses for the MT?
Examples of ordinary and necessary expenses for the MT might include educational training; equipment and supplies; an office write-off (such as a debt you know the client isn’t going to pay); office furnishings; advertising, promotion, printing, and postage; utilities; laundry expenses; gifts to clients and meals to promote your business; travel costs (for educational training); and the business use of your vehicle. (Review IRS Publication 334, Tax Guide for Small Business, for more information.)

WRITE OFF A HOME OFFICE
You may be able to deduct expenses for the portion of your home’s expenses used for business. These expenses may include mortgage interest, insurance, utilities, repairs, and depreciation. To qualify to claim expenses for the business use of your home, you must meet both of the following tests:

- The business part of your home must be used exclusively and regularly for your business.
- The business part of your home must be your principal place of business, or a place where you meet or deal with clients, or a separate structure (not attached to your home) used in connection with your trade or business.

The IRS defines “exclusive use” as a specific area of the home used only for trade or business. “Regular use” means the area is used regularly for trade or business. Incidental or occasional business use is not regular use, but the storage of inventory or product samples generally does not have to meet the “exclusive use test” for the part of your home regularly used for these purposes. (These requirements are discussed in greater detail in IRS Publication 587, Business Use of Your Home.)

The IRS encourages taxpayers to familiarize themselves with the requirements before taking a home office deduction and to keep complete and accurate records to substantiate those deductions. A common error, according to the IRS, is to deduct expenses for a portion of the home that is not used regularly and exclusively for business.

CALCULATE A HOME OFFICE DEDUCTION
Generally, the amount of your home office deduction depends on the percentage of the home that is used for business. The IRS says a taxpayer can use any reasonable method to compute the business percentage of home use. Two common methods include:

Tax regulations change annually. Check with your accountant for additional information about how you might be impacted. Also, be sure to use the updated resources from the IRS (www.irs.gov) and your state.
• Dividing the area of the home used for business by the total area of the home (square feet).
• Dividing the number of rooms used for business by the total number of rooms in the home if all rooms in the home are about the same size.

The IRS warns, though, that taxpayers may not deduct expenses for any portion of the year that there was no business use of the home. And, if the gross income from business use of the home is less than the total business expenses, the deduction for certain expenses is limited. (IRS Publication 587 includes examples, worksheets, and additional information on computing the allowable deduction.)

DEDUCT USE OF YOUR CAR
You can deduct actual car expenses, which include depreciation (or lease payments), gas and oil, tires, repairs, tune-ups, insurance, and registration fees when your vehicle is used for business purposes. But, instead of using actual expenses, you may be able to use the standard mileage rate to figure your deduction.

Whether or not you claim the standard mileage rate, as a self-employed MT you can also deduct the business part of interest on your car loan, state and local personal property tax on the car, parking fees, and tolls. Keep in mind, though, that if you use your car for both business and personal purposes, you must divide your expenses based on actual mileage. (For more information on car expenses and the rules for using the standard mileage rate, see IRS Publication 463, Travel, Entertainment, Gift, and Car Expenses.)

PREPARE YOUR OWN TAXES
At this point, you’re probably feeling a little more comfortable with the tax filing process. You know how to maintain complete and accurate records, you know what your deductible expenses may be, you’ve divided your receipts into the appropriate categories, and you have a pretty good idea about how much income you’ve made this year. Now you just need to decide how you want to handle the filing of your tax forms.

One option is to take all your newly organized receipts, deduction category sheets, and income logs to your accountant or other tax professional to have your tax returns completed for you. Though you’ll spend a little more money using this option, you’ll have the satisfaction of having a professional do the work for you, plus your accounting and tax preparation fees will be deductible.

Another option is to do your taxes yourself. Though preparing and filing your own taxes was difficult in the past, there are tax software programs available today to help you do the job quite easily. Two highly rated programs are Intuit’s Turbo Tax and TaxACT. The basic format of these programs is a Q&A session, with the programs asking you every conceivable tax-related question. You’ll answer questions (on your
computer) typical of those that your accountant would ask you. Once your questions have been answered and your forms are completed, your chosen tax software program will walk you through the filing process making it relatively painless. The costs for these programs vary, but most versions are less than $100 and the expense is also tax deductible.

Your adjusted gross income may qualify you to use the IRS’s Free File Program. The program uses the same question and answer platform as the “pay for use” tax-filing programs already mentioned, but there’s no fee. To use this option, access the IRS website at www.irs.gov and complete your taxes online.

No one enjoys the tax season or the paperwork it requires. But with some prior planning and organization, you can make the process less painful and a whole lot more efficient. SBH

Lisa Bakewell is a full-time freelance writer in the Chicagoland area. Her areas of expertise include profile pieces, as well as articles in the areas of health and exercise, parenting, business “how-to” articles, and money-saving tips.
Every year, as April 15 approaches, a lot of massage therapists find themselves feeling a mixture of dread and panic at the thought of filing their taxes. Fortunately, it really doesn’t have to be that way. With a little organization, planning, and help from the right source, you can be ready for a stress-free tax experience.

ORGANIZATION IS THE KEY
If you’re one of those people who saves every receipt and warranty card, and has a nice, neat file cabinet filled with carefully labeled folders, you’re already ahead of the game. If you prefer dumping everything into a box or a drawer, you’re still in the game. If you haven’t been saving receipts or been diligent about keeping good financial records, it’s time to revamp your habits to avoid the stress of tax-time disorganization, and ensure you’re taking every allowable expense for your business.

I keep one folder on my desk for unpaid bills; my file cabinet is organized with labeled hanging folders, and inside the hanging folder is a regular file folder for holding the receipts and invoices that have been paid, organized chronologically.

On December 31, I just pull out all the file folders, store them in a labeled file box, and replace them with new file folders in my hanging file. It’s an easy system.

PLANNING AHEAD
April 15 has been “tax day” since 1955. You know it’s coming every year, so all it takes is for you to make up your mind to be prepared. Depending on the structure of your business, you may have deadlines to meet throughout the year, not just in April. Self-employed business owners, as well as those who work for someone else as an independent contractor, must pay self-employment tax, also known as quarterly estimated tax, every quarter. Filing dates for quarterly estimated taxes
are April 15, June 15, September 15, and January 15 for the final payment of the preceding year.

Paying your quarterly estimated tax is going to save you from the shock of finding out you owe a big tax bill at the end of the year. When taxes aren’t automatically deducted from your paycheck, as they are for employees, it’s easy to forget that all that money doesn’t belong to you.

SEEKING HELP
The tax-paying public tends to head for the accountant’s or tax preparer’s office as April 15 draws near. In reality, the best time to have an appointment is before you go into business, or the beginning of a new year if you’re already in business. A certified public accountant, or certified financial planner, can give you advice on the best type of business structure to choose for your particular business situation, offer guidance on how much money you should be setting aside for your taxes (and your retirement), clarify what your deductions are according to your employment circumstances, and advise you on getting your budget back on the right track if it has fallen off.

DEDUCT, DEDUCT, DEDUCT!
Most people are aware of the obvious deductions, like advertising, rent, and utilities.

Less obvious deductions shouldn’t be overlooked. Basically, if it’s for your business, it’s a deduction. Taking a lomilomi class in Hawaii? Write it off. Buying music to play during massage? That’s deductible. The business use of your car is tax-deductible; that is especially important to those therapists who do outcalls for a living. And practitioners who work at home definitely need to take advantage of the home office deduction. For complete details on deductions for the self-employed, visit the Internal Revenue Service website.

If you are an employee, you may still be entitled to certain tax deductions, as long as they are not expenses that are reimbursed by your employer. For instance, if you’re obligated to pay for your own work uniform, that’s a deduction. However, you must itemize your taxes in order to take advantage of that, and you can only deduct what is in excess of 2 percent of your adjusted gross income.

EXPENSES YOU CANNOT DEDUCT
Deductions can be confusing and the IRS has little sympathy for those who abuse them, so proceed with caution. Following are some examples of possible deductions that may suit practitioners.

While uniforms are tax-deductible, clothing that is adaptable to everyday use is not. You might have a hard time convincing the tax auditor that you can’t also wear those khaki pants and polo shirts you wear to work to the bowling alley or the grocery store.

Job-hunting expenses are only deductible when you are seeking to change jobs within the same profession, and cannot be taken when you are looking for your first job, or changing career tracks altogether. In the same vein, a therapist just starting her career may not be able to deduct the cost of taking the exam required for initial licensure, but once in practice, would be able to deduct the cost of an advanced certification. Personal expenses, like gym memberships and nail and hair services, can’t be deducted unless you’re a model or an actor who can prove it’s vital to your career to look good. You can deduct the costs of belonging to a professional membership organization, but you can’t deduct your membership to the local country club. If your business is strictly an outcall business and you document your mileage, that’s a legitimate deduction. However, some folks have had the crazy idea that they can deduct the entire cost of their auto by putting a magnetic business sign on the family car. Wrong. The only thing deductible in that case is the cost of the sign.
MAXIMIZING YOUR PERSONAL DEDUCTIONS
If your business is structured so that the income is directly yours, or passed through an entity to you to be reported on your personal tax return, and your deductions fall below the threshold that it would serve you to itemize your tax deductions on your personal return, you’ll just be taking the standard deduction. According to the IRS website, for the tax year 2012 that amount is $5,950 for a single person or a married person filing separately, and $11,900 for a married person filing jointly or with a dependent.

On the other hand, if you have more than one child or other family member who is your dependent, if you’re paying a mortgage, if you have steep medical and dental expenses, casualty and/or losses due to theft, have made substantial contributions to charity, have contributed to your own retirement account, or even bought a new car, you may be better off itemizing your tax deductions on your personal return, you’ll just be taking the standard deduction. According to the IRS website, for the tax year 2012 that amount is $5,950 for a single person or a married person filing separately, and $11,900 for a married person filing jointly or with a dependent.

SURVIVING AN AUDIT
Few words strike as much fear into a human being as, “You’ve been chosen for an audit.” Don’t be scared; by definition, an audit is simply an examination of your tax return. According to Jeff Schnepper, a popular columnist on the Microsoft Money Network, the biggest reason people receive a letter from the IRS is because of human error. Most audits are conducted through the mail; it’s highly unlikely the taxman will come knocking at your door unless the IRS thinks you’re running a cartel and laundering money. Schnepper says that every year the IRS mails out more than 1 million letters to taxpayers who fail to sign their tax returns.

In reality, small businesses are much more likely to be audited than big companies, and that applies to service businesses in particular. The assumption is that small service businesses are much more likely to receive cash payments that may go unreported.

You can avoid being audited by checking your numbers and being sure your tax return is free from mistakes (another reason to hire a professional). Don’t ever brag about cheating the IRS—they’ll give whistle-blowers as much as 30 percent of the tax they collect from the deliberately dishonest. Also, make sure your tax return matches your supporting documentation and remember that most audits take place within 18 months of filing. Generally, there is a three-year statute of limitations for the IRS auditing a tax return (so you need to keep your records for at least that long) and a 10-year statute of limitations for the IRS collecting tax. The bottom line, if you are audited, be cooperative.

Remember, the steps to stressing less about taxes and keeping more of your money are simple: get organized, be prepared, and seek the proper help. SPH

Laura Allen is the author of Plain & Simple Guide to Therapeutic Massage and Bodywork Examinations, One Year to a Successful Massage Therapy Practice, and A Massage Therapist’s Guide to Business. Allen is the owner of THERA-SSAGE, a continuing education facility and alternative wellness clinic of more than a dozen practitioners of different disciplines in Rutherfordton, North Carolina.
5 Burning Questions for Tax Time
What Bodyworkers Need to Know
By Les Sweeney, NCTM, and Kristin Coverly, RMT

LES SWEENEY: Ahh, taxes—one of the few topics where people can universally agree on something. We don’t like paying them, we don’t like tracking them, we don’t like remembering to pay them … did I mention we don’t like paying them?

Some fun tax facts for you, Kristin (for starters, try saying, “fun tax facts” five times with a mouthful of potato chips):

• The first income tax in the United States was assessed in 1862 to pay for the costs of the Civil War, at a rate of 3 percent.
• The 16th Amendment to the US Constitution allows Congress to levy an income tax without apportioning it to the states or basing it on the US Census.
• The name Internal Revenue Service (IRS) was first used in 1918.
• There is a record label called IRS, cofounded by the brother of one of the members of The Police.

Another fun fact to note: Neither Kristin nor I are accountants or tax advisors; any tax information shared within this article should be considered as normal conversation between friends over a beer or coffee. For specific questions related to your tax situation, you are best served by seeking out a qualified tax professional.

KRISTIN COVERLY: I knew we could count on you to not only make our tax talk fun, but to somehow create a connection between paying Uncle Sam and cool music!

Rather than assume we knew what our readers wanted to know about managing their
finances, we asked for questions via our social media outlets. The majority of inquiries were about business expenses and tax deductions. For example, Donielle S. asks, “What are appropriate or legal tax deductions for massage therapists?”

The IRS answers the question “What Can I Deduct?” at www.irs.gov: “To be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your trade or business. An expense does not have to be indispensable to be considered necessary.”

This means a valid business expense is anything you spend money on to run your practice. Legitimate expenses vary from profession to profession. For example, a musician wouldn’t have a laundry expense like we do. So, throughout the year, keep track of anything you pay for because you own a business. Think about it this way—if you didn’t have a practice, would you have incurred that expense in your personal life? If not, it’s a business expense. If you use something for both personal and business—like your cell phone—estimate how much of the item you use for business and claim that percentage of the cost as a business expense.

LS: Where small business owners get into trouble is when they get a little generous with what they claim as business expenses. You’ll occasionally see ads for continuing education on a cruise ship, claiming, “A vacation that doubles as a business expense!” Things that seem too good to be true sometimes end up being just that. Season tickets for the opera? Not a business expense. An example of something that is a little more complicated would be auto expenses. The IRS allows you to deduct these, based on either actual car expenses or a standard mileage rate. But you can’t buy a car and deduct the cost of purchasing it, unless you want to be a bit more aggressive and take steps to make the car an asset of your company. Even in that case, you’ll still need to keep track of your expenses and/or personal use.

KC: Right. I always think about it like this: if you’re audited and you’re sitting across the desk from the IRS agent, will you be nervous about defending what you’ve claimed? If the answer is yes, don’t claim it. It’s as simple as that. And keep in mind that you’re ultimately responsible for anything that’s on your tax return, even if you hire an accountant, so always read before you sign.

So now that we’ve wrapped our heads around what a valid business expense is, let’s talk about how we keep track of those expenses throughout the year. What happens between getting the receipt and filing your taxes? Katie V. asks, “How should massage therapists do their bookkeeping?” I’ve always kept it simple and created Excel spreadsheets to track my income and my expenses. On my income spreadsheet, I record the date, form of payment, client name, length of session, and amount paid. For expense tracking I record the date, how I paid, who I paid, what I spent money on, and the amount I spent. I organize the expenses into different categories—like supplies, equipment, phone, marketing, office rent, state licensing, etc.—that reflect the types of expenses I incur throughout the year.

LS: Kristin, your method is probably the one most commonly used by practitioners. The key to keeping track of your finances isn’t as much about the tools you use, but rather the approach you bring to it. The critical word to think about is organization. No matter what method you rely on—low-tech or high-tech—being organized will keep you on track.

In our discussion about technology resources over the last few issues, we identified a few apps that can help with financial management. Whether you use Excel, iBank, Mint, QuickBooks, Quicken, or a notebook, staying diligent is the key. You can have the best software around, but if you don’t log your expenses and revenues, you’re nowhere.

One suggestion for staying diligent is to schedule your time (which brings up time management—oh wait, that sounds like another article). Do you have specific available treatment times each week? Do you have an hour set aside for financial management each week? If the answer is no, you should think about changing that. Your bills won’t wait; that means balancing your checkbook shouldn’t either. Pick an hour one day a week
Some business expenses are straightforward. If you buy massage lotion, the full cost of the lotion is a valid business expense. Here’s a guide to a few of the trickier expense categories:

**Mileage:** Keep track of all the miles you drive for business purposes throughout the year—to a continuing education class, to the store to buy supplies, etc. Calculate your deductible cost using the standard mileage rate set each year by the IRS. Driving to and from your office, or to work if you’re an employee, is considered commuting and is not deductible, sorry.

**Laundry:** Rather than tracking water use, detergent expense, etc., and dividing costs between business and personal use, many accountants recommend calculating a per-session laundry expense. We’ve heard a range of $1–$2 per session from various accountants, so check with yours to choose a figure that works for you.

**Shared items:** Some things are used for both business and personal reasons, like your cell phone, Internet connection, and printer. In these cases, estimate how much of the item you use for business and take that percentage of the cost as a business expense.

that you know you’ll almost always have available, and plan to log all your expenses and receipts.

This goes for your personal financial management as well. Rule #1 for financial management: keep your personal and business accounts separate! Make sure you can easily identify business-related expenses; if you deduct them, you might have to identify them for the IRS (not the record label).

**KC:** Having a regularly updated tracking system in place significantly reduces panic come tax time. I’ve talked to way too many therapists as they’re sitting down with a shoebox full of receipts in April, and it’s not pretty!

When it comes time to do your taxes, all of the different categories of expenses you’ve kept track of will be placed into the categories on the Schedule C “Profit or Loss From Business, Sole Proprietorship” tax form. You can take a look at the form on the IRS website at www.irs.gov. If you have expenses that don’t quite fit into those pre-set categories, you can list them in the Other Expenses section—things like association dues, laundry, and continuing education. Your total business expenses will then be deducted from the gross revenue you earned throughout the year to calculate your taxable income; your tax owed will be a percentage of this figure.

If your stress level is rising as you work your way through this column, don’t worry, you can always hire an accountant to help you (and claim that expense on next year’s taxes). On that note, Lauren B. asks, “How does a massage therapist go about finding an accountant?” What’s your advice, Les?

**LS:** My first comment is, “You are not alone.” There are almost 22 million firms with no payroll, according to the US Census Bureau. A firm with no payroll essentially means self-employed individuals. So there are lots of folks in the same boat as you trying to find professional assistance. And there are more than 1.7 million accountants (again, thank you Census Bureau) out there as well.

I think the key is to look for an accountant who specializes in helping small businesses, and if you can narrow it a bit further, service businesses and/or professional practitioners. It might be too much to ask to find an accountant who has experience working with massage and bodywork professionals, but your odds will increase if you broaden your filter to
include chiropractors, doctors, estheticians, hair stylists, physical therapists, etc.

I would start with my client list; maybe an accountant is among them. Or perhaps a client can refer you to one. Other research avenues could include your local Chamber of Commerce, small business development center, or other business organizations (Rotary, etc.). Also, you can search your state society of accountants. Do it like many clients find you—word of mouth.

KC: If you'd like referrals for accountants from other therapists in your area, don't forget about your online community of therapists and bodyworkers at www.massageprofessionals.com.

Les, Angela L. asks, “What percentage of a private practitioner’s income should be saved to pay taxes without stress?”

LS: Hmm … Angela, the fact that you have stipulated “without stress” makes this question extremely challenging! Everything is variable—including factors not directly related to your business, like whether you have a wealthy spouse, or four children, or donate heavily to charity. There are many factors that contribute to your tax responsibility. First and foremost is your income level. The United States has a progressive tax system—that means the more you make, the larger percentage you pay. If you will owe more than $1,000 in taxes (that will not be collected by withholding) during the year, you are obligated to pay quarterly estimated taxes. Uncle Sam wants to be paid during the year, not just at the end.

How much you should pay quarterly again depends on your income level, as well as what you think your taxable income will be, meaning your income less your deductible expenses. Once you have an estimate of what your taxable income will be, you can determine your tax responsibility. There are several ways to do that—using the tax tables, calculators, and worksheets at www.irs.gov; using a tax planner; or using tax preparation software, such as TurboTax.

It sounds a bit complicated, but it’s not too bad.

KC: Once you come up with an estimate of the amount you’ll owe, put a percentage of every deposit aside so you’re not scrambling to come up with your quarterly or annual payment the day before it’s due. Some therapists employ the out-of-sight, out-of-mind method and open a separate account so they’re not as tempted to spend that money.

Here’s a question that affects our readers who work for someone else. Marie C. asks, “As an employee, should I try to get as large a refund as I can?”

LS: No. Absolutely not. And by that I mean no! Refunds feel good, and are better than owing, for sure, but the object of the game should be to get to zero. If you owe nothing, and receive nothing, that means you had the right amount of tax withheld. Don’t let the government keep your money all year! You earned it—you keep it. Conversely, don’t keep the government’s money all year! You owe it; spread it out so April isn’t too painful.

KC: The key thing to remember is that taxes don’t have to be intimidating or scary. They’re just a regular part of running a business. Once you learn what to track and put a system in place to record the information throughout the year, it becomes just one more—very doable—part of being a business owner.


Les Sweeney is ABMP’s president and resident blogger. Contact him at les@abmp.com and read his blog on www.abmp.com. Kristin Coverly, kristin@abmp.com, is an ABMP education facilitator who teaches workshops for therapists and instructors across the country. Both are massage therapists with business degrees who care about you and your practice. Want more? Check out their ABMP BizFit video tips on www.abmptv.com.

Want more in-depth tax support?

• Download the ABMP BizFit Taxes Toolkit on www.abmp.com/taxes.
• H&R Block offers ABMP members a $15 discount at participating retail offices, 35% off of online tax prep, or 20% off of tax prep software. For more information, visit www.hrblock.com/offers/abmp.
The relationship between you and the person you choose to do your accounting and taxes is more important than you may think. Your accountant is the logical person from whom to seek advice and help with business and personal finance decisions, and the right accountant can function as a valuable partner. That’s why it’s crucial that the relationship be comfortable and trusting.

Following are seven tips that should help you find the person who is the best fit for you and your practice.

1. SEARCH FOR PROSPECTS
You may get lucky going with a friend’s recommendation, but you should do your homework first. “The best way to locate a compatible accountant is to ask around the community,” says CPA and tax advisor Genevia Gee Fulbright of Durham, North Carolina. Ask bankers, insurance agents, small business owners, and even other practitioners.

“One of the most important factors in selecting an accountant is the quality of the customer service she provides,” says Vincent G. DiAntonio, a CPA from Blue Bell, Pennsylvania. “Sometimes a recommendation from a friend is the best way to find a good accountant, since some do not advertise. Many, in fact, acquire new clients solely through word of mouth. That gives them a strong incentive to provide quality customer service.”

2. VERIFY CREDENTIALS
“Some individuals working as bookkeepers or accountants have no formal license or education in accounting,” cautions Navin Sethi, CPA and tax manager with Rothstein Kass in Walnut Creek, California. “That’s why you should do a thorough investigation before you hire an accountant. The best way to protect yourself is to hire a CPA.

“In order to earn the CPA credential, applicants must meet the requirements of the state or jurisdiction in which they practice. CPA applicants must also pass the national CPA exam and, depending on the state, have some actual practical work experience before receiving their license. Finally, CPAs must adhere to requirements to take specified amounts of continuing professional education courses to retain their license to practice. Your benefit is that you will be working with a professional who is required to keep up-to-date on the latest and best accounting methods.”
3. CHECK REFERENCES
Checking an applicant’s references is one of the most important steps in the hiring process. It may be rare, but even professionals can misrepresent their backgrounds and credentials, or simply leave out important information.

Checking references takes a little time, but human resource professionals know it’s a simple step that could save you from hiring someone who is woefully unqualified.

4. FIND A COMFORT LEVEL
Fulbright emphasizes the importance of the chemistry between you and your accountant, especially if you run a small practice. “Make sure you have clear goals for your business and that your prospective accountant understands them,” she says. “Go to lunch; have a conversation. That will help you decide if you’re both on the same page.”

5. USE THE 60 PERCENT RULE
Keep in mind that there is a wide range of specialties open to CPAs, from individual taxes, to large corporate clients, to small businesses, and everything in between.

“Look for a CPA who has 60 percent of his or her business coming from small professional practices and business owners like you,” Marsala says. “They’re more apt to keep up with the laws regarding clients they deal with most often. If your practice is incorporated or is a limited liability corporation, make sure the person specializes in corporate accounting, including financial statements and audits.”

6. CONSIDER YOUR NEEDS
If you have unusual accounting problems in your practice, you should look for an accountant with specialized training or experience.

“If you ever find yourself in need of an outside audit for your practice, additional designations such as Certified Fraud Examiner (CFE) would be helpful,” Fulbright says.

Perhaps you have limited experience in personal financial management and would like to explore the possibility of increasing your investment portfolio. “An accountant who is also a Certified Financial Planner (CFP) would be a good choice when you need investment/portfolio advice,” Fulbright says.

7. DON’T FEAR CHANGE
Despite your best efforts, you may find yourself working with an accountant who isn’t right for you. If this happens, experts say you should not hesitate to look for a replacement. Your accountant is too important to your success for you to compromise.

Massage professionals should continually review where they are in the life cycle of their professional careers. “They may need to change the business form of the entity as their business grows,” Katz says.

Finding the right accountant for your practice may take a special effort, but the time you spend may well prove to be among your most profitable investments. **SPH**

William J. Lynott has an extensive background in management consulting, marketing, and finance. He’s written more than 900 articles appearing in a wide range of consumer magazines, trade publications, and newspapers in 17 countries.