SMALL BUSINESS TAX PREPARATION CHECKLIST

1. Know which tax forms you'll need to fill out.

- You can't file your taxes correctly without the right form, so identifying the proper tax documents you'll need is one of the first steps that any small business owner should take.
- The type of form you require will depend on the nature of the business you run.
- If you're a sole proprietor, attach a Schedule C Form to your personal income tax return, or use a 1099-MISC
- If you're a C-corporation, use Form 1120
- If you have S-corporation status, use Form 1120S
- If you're in a partnership, file Form 1065 as an informational return and submit your share of the business's expenses, income, and losses on Schedule K-1
- Keep in mind, your tax liability can vary widely based on what type of business entity you have. Your accountant or tax preparer will be able to explain the impact of your business type on your tax burden.

2. Meet with your bookkeeper.

- Whether you outsource your bookkeeping or keep it in-house, your bookkeeper is a valuable resource when it comes to small business tax preparation. That's why meeting with your bookkeeper tops the small business tax preparation checklist.

- Many bookkeepers do not prepare tax returns, but an experienced bookkeeper knows many of the answers to your tax preparer's questions—before your tax preparer even asks them.

- Schedule some time to review the previous year's books with your bookkeeper. Make sure any questions they have for you have been resolved. Ensure all your accounts are fully reconciled. Review the balance sheet for the proper recognition of new asset purchases. Being comfortable with your books before your tax appointment will make the process go smoother for both you and your tax preparer.

3. Update your mileage log.

- If you use your personal vehicle for business, deducting the standard mileage rate on your tax return is usually more beneficial than deducting your actual vehicle expenses for the year. The trick, of course, is you have to track your mileage in order to take the correct deduction.

Fortunately, the days of keeping a paper log are behind us, and there are a number of mileage tracking apps you can install on your smartphone to make tracking mileage painless.

- Before scheduling your tax appointment, make sure your mileage log app has been updated and all trips have been properly classified as either business or personal. Print out the report and take it to your tax preparer, along with your vehicle mileage at the beginning and the end of the tax year. Avoid the temptation to "estimate" your mileage deduction—the IRS requires you to keep a log, and failure to do so can lead to your deduction being disallowed in the event you are ever audited.

4. Gather your financial records.

The third tip on the small business tax preparation checklist is to gather your financial records.

Here's a list of some of the most common documents that small business owners should track down before filing:

- Income statement
- Balance sheet
- Bank and credit card statements
- Payroll documents
- Last year's business tax return
- Partnership agreements
- Accounting documents
- Asset purchase details
- Depreciation schedules

By making sure all this information is on-hand before beginning, business owners can make the tax preparation process less time-consuming. Ideally, you should be using business accounting software to generate most of these financial records.

5. Capture all expenses you have paid for out of pocket.

- Do you purchase things for your business using your personal Amazon account? Have you ever used your family PayPal account to subscribe for a business service? As much as possible, you should always separate personal from business finances, but even if you do use a personal account for business expenses, those expenses are legitimate tax deductions. That's why scanning your personal expenses for business purchases makes our small business tax preparation checklist.

- How do you capture these expenses? Review your personal account activity for the previous year and isolate any business expenses you find in them. If you act before the end of the tax year, you can write yourself a reimbursement check from your business bank account and capture the expenses that way.

- Often, there are expenses you may not remember until after the beginning of the new year. In that case, enter the expenses into your bookkeeping by debiting the appropriate expense account and crediting an equity account.

6. Record all personal expenses paid for from your business accounts.

- Just as you may purchase things for your business using your personal accounts, you might occasionally grab your business credit card instead of your personal credit card when you are in a rush at the grocery store checkout line. These personal expenses need to be recorded properly in your bookkeeping system, so they are not improperly deducted as business expenses.

- Ideally, you would repay your business for these expenses, but it's much more common to simply enter the transactions as a credit to your checking or credit card account and a debit to either a loan to business or equity account. The best way to avoid this problem in future years by using a separate bank account and credit card just for business expenses.

7. Gather any 1099s you have received.

- Forms known as 1099s serve as "tattletale" documents to help the IRS ensure taxpayers are reporting all their income. If your business is service-based, you will likely receive 1099s from a number of your customers. If you provided any work for a company or individual as a non-employee, you'll receive a 1099-MISC form.

- Since 2012, credit card processors and payment processing companies like PayPal and Stripe have been required to issue a new kind of 1099 called Form 1099-K. Form 1099-K is used to report credit or debit card payments in excess of $20,000. Form 1099-K is also issued when a payee receives payment for more than 200 credit or debit transactions in a year, regardless of the annual dollar amount.

- Most tax preparers don't use Form 1099-MISC or Form 1099-K to prepare a business' tax return, but they review them to ensure their clients are reporting at least as much income as the total reported on the 1099s received. That's why this tip makes our small business tax preparation checklist.

8. Make sure you have issued 1099s as appropriate.

- The IRS requires you to issue Form 1099 to any non-corporate service provider to whom you pay more than $600 in a given year (the corporation rule does not apply to attorneys, who must be issued a 1099 regardless of corporate status). There is an exception, though: If you pay for these services using a credit or debit card, or if you use a payment service such as PayPal or Stripe, you must exclude those payments from your 1099 reporting. The payment processor is responsible for reporting those payments on Form 1099-K. Other rules apply to 1099 reporting, so double check with your bookkeeper to ensure you have issued all necessary 1099s.

9. Pull receipts for asset purchases.

- Assets include furniture, computers, vehicles, and other large purchases. Generally speaking, an asset will cost at least $500 and is expected to be in use more than one year. Typically, businesses depreciate assets slowly, deducting the full purchase price of the asset over a number of years. However, thanks to a provision of the tax code called Section 179, you can choose to depreciate the cost of certain eligible assets all at once in the year of purchase.

- Your tax preparer will need to know when the asset was purchased and what was included in the purchase price—so pulling these receipts makes our small business tax preparation checklist. This will help her determine how much depreciation can be recorded in the tax year or whether the asset qualifies for Section 179. Your tax preparer may also want to retain a copy of the receipt or other purchase documentation in their work papers.

10. Ensure your loan balances match your balance sheet.

- Many small business owners record the entire amount of their loan payments as a decrease in the liability owed. Not only does this cause the loan balance to be reflected inaccurately on the balance sheet, but it also doesn't separate out the interest paid. Loan payments for principal are not tax deductible, but the interest on a loan is.

- Review your loan statements at the end of the year with your bookkeeper, and make sure the loan balances on the balance sheet match the balances on these statements. As is the case with bank and credit card statements, many tax preparers will want to review your loan statements before preparing the tax return, so include them in the paperwork you take to your tax appointment.

11. Make sure your meal expenses are properly categorized.

- Generally speaking, expenses for meals you have with your customers and clients are only 50% deductible. However, certain meals—such as those purchased while you are traveling—might be 100% deductible. Additionally, meals you provide for your employees for the business' convenience—let's say, pizza you order so your team can work through lunch to meet a deadline—are also 100% deductible.

- If you classify all meals as "Meals and Entertainment" expenses, your tax preparer will only deduct 50% of the expenses as a business expense. Take a little extra time to subcategorize these expenses as Travel or Employee meal expenses to maximize your tax deduction.

12. Note any changes in business ownership.

- If a partner leaves the business, or if you offer a stock option to your employees, your tax preparer needs to know about it. Changes in ownership affect the equity in your business, and—while your bookkeeper may have recorded the changes to equity in your books at the time of the change—you will need to call the changes to your tax preparer's attention. This is an important tip for the small business tax preparation checklist.

- Ownership changes can have some tricky tax ramifications, so before making a move like this in your business, consult with your tax preparer to ensure you are making the best decisions from a tax standpoint.

13. Remember to deduct estimated tax payments.

- Most small business owners must make estimated incomes tax payments throughout the tax year. (In addition, business owners must deposit payroll taxes on an ongoing basis.) When you finish your tax return, deduct the income taxes you've already paid from your total income tax liability. That way, you won't overpay your taxes.

14. Schedule a pre-appointment call with your tax preparer.

- Few things are worse than showing up for your tax appointment unprepared. Not only does this mean you have to make multiple trips to your preparer's office, but it also delays the preparation of your return.

- Your tax preparer knows what information they will need from you in order to file your tax return.

15. Request a tax filing extension if necessary.

- The tax filing and payment deadlines for most business types falls on either March or April 15 (the following business day if the 15th is a holiday or falls on a weekend). If you don't think you'll be able to file on time, don't hesitate to request a filing extension from the IRS. You can e-file for an automatic tax filing extension, giving you until the fall to file your return. Just remember, even though you have a longer time to file your return, you have to pay your taxes by the original deadline. If not, you face the risk of incurring tax penalties and back taxes.