Steps to Starting a Business:  
The Taxman Cometh: When to Seek Advice

I challenge you to find anyone who loves to pay taxes. It may not be an exciting or easy part of operating a business, but it is a necessity. When you own your own studio, making sure that the IRS and state and local governments are happy becomes one of your responsibilities.

Some aspects of the tax filing process require the assistance of an accountant or CPA, so establishing that open line of communication early on can save time, headaches and possible penalties (like the IRS showing up at your door for an audit).

Selecting a Business Entity
When you select what business entity your studio will fall under, it is best to consult with your CPA due to the many variables that can influence your final decision. There are four primary options to select from when choosing how to legally operate your small business: sole proprietorship, “C” corporation, “S” corporation, and a limited liability company (LLC). The entity that you select will influence your business’s tax burden, so it is ideal to weigh your options before you open your studio. But just because you started your business under one legal status does not mean that you cannot change to another legal status further down the line. Over time, some businesses change and your business status should reflect that—if this is the case, contact your CPA for more information.

There are three main aspects to consider when determining the best business entity for your studio: what state you operate in, how much profit (or loss) your business generates and how much wealth you have in the form of personal assets. The state you operate your business in is of importance because state laws vary in how they deal with business entities—for example, certain states do not recognize “S” corporations.

There are pros and cons to each type of business entity, and there is no one answer for every studio. Factors such as studio income, ownership or personal wealth can influence what the best decision is for your business legal structure. Even the legal processes vary between different business entities. All of this information can be confusing and overwhelming, which is why we recommend working with your CPA to determine the best course of action for your business.
Tax Deductions
Tax planning and making smart tax deductions have the ability to maximize the amount of hard-earned money that your studio can keep. These deductions are not always straightforward, and your CPA can provide you with sound advice on the best plan of action. When meeting with your CPA, here is a list of topics that should be discussed:

- Equipment depreciation and Section 179 deductions
- Automobile depreciation
- Health insurance deductions
- Home office deductions
- Owner’s salary vs. distributions for “S” corporation filers
- Retirement planning and deductions

Business Taxes – Making sure that you properly handle your business taxes—including sales tax and employment tax—can also help save your studio time and money. While these taxes are crucial to operating a successful business and a serious responsibility, they can be easily overlooked or pushed aside to deal with “later.” Both sales tax and employment tax are taxes you collect from others on behalf of the IRS or your local and state governments. Collecting and remitting sales tax, as well as withholding and remitting employment taxes (also known as payroll taxes), are the responsibility of you, the business owner. This may require payments throughout the year, not just at “tax time.”

Sales Tax – Sales tax can be an extremely confusing matter, especially with varying state requirements and the abundance of conflicting explanations. By consulting with your CPA, you will be better prepared to navigate through the misinformation and properly calculate sales tax for your studio.

For example, a common sales tax misconception is that a photographer doesn’t need to charge sales tax on a session fee. In reality, most state and local governments that have a sales tax require photographers to collect sales tax on everything you sell—including session fees. Photographers may be told they do not have to collect sales tax on session fees because they constitute a service. However, this is incorrect information, as most government sales tax agencies view the session as a part of the manufacturing process for the final product you deliver, not as a separate service you are providing. While there are some states that are exceptions to this rule and may collect something other than sales tax (like a gross receipt tax), it is best to check with a CPA to make sure that you are handling sales tax collection and payment correctly.
**Employment Tax** – Employment tax generally refers to two types of taxes: taxes that employers are required to withhold from employees’ pay and taxes that are paid from the employer’s own funds and are directly related to employing a worker. Just like sales tax, employment taxes must be collected and properly remitted to the federal and state governments. Payroll plays a role in employment taxes since they are withheld from employees’ paychecks, which may also include your own, depending upon your business entity.

A common cause of confusion regarding employment tax is the distinction between an employee and an independent contractor. There are extensive and complex rules about who can be paid as an employee, which directly affect how employment taxes are handled. Your CPA can assist in making sure that you classify your workers properly.

Business taxes can be confusing and time consuming. While there are certain aspects of the process that you can handle on your own as a business owner, there are certain situations where having the advice and guidance of a CPA is extremely beneficial. There is no one solution for every studio—each studio is different and requires individual attention. PPA and their Studio Management Services team highly recommend you work with a qualified CPA to help you make the best tax decisions for your business.

**What You Can Do Now**

- If you are looking for assistance with your studio’s finances or need help finding a tax preparer for your studio, look into utilizing PPA’s Studio Management Services (SMS). Our SMS team can provide you with expert advice and make sure your studio is on the right track.

- If you are looking for equipment financing options, United Funding, LLC provides PPA members with a rebate on leases/loans, which may also qualify for IRS Section 179 (mentioned in the tax deduction section of the article).

- Read the article “To S-corp or Not to S-corp” for more specifics on the pros and cons of classifying your business as an “S” corporation.

- If you need more information on the maze of sales tax, check out the article, “To Sales Tax or Not to Tax.”