UN F*CK YOUR BIZ

A STEP-BY-STEP FRAMEWORK TO GET YOUR LEGAL AND TAX SHIT LEGIT

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LEGAL DISCLAIMER

No book on law would be complete without a legal disclaimer. So please note that this book does not constitute legal advice nor establish an attorney/client relationship. It's always advisable to search legal requirements in your home state and city and to consult locally licensed lawyers and tax professionals. Also, please note that changes in law may affect sections of the book and that the tax rates may change under new law and are likely to vary from year to year.

DEDICATION

To Grandpa ("Big Papa" to my nieces and nephews). My memory of our last conversation was you telling me you couldn't wait to see what I'd make of my life and career. That was a few months before I got married and passed the bar exam. You are greatly missed. I hope I'm doing you proud.

P.S. Sorry for the book title.

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FOREWORD

So you want to be a successful business owner?

Well, I sure hope you do. I mean . . . you're picking up a book called *Unf*ck Your Biz* and with a title like that Braden clearly isn't messing around.

Truthfully, I'm glad you picked up this book. I wish it existed when I started my first business over a decade ago. It would have prevented me from learning many of these lessons the hard way—and I truly mean the hard way.

Screwing up my business plan. Crying over unforeseen taxes. Failing to trademark my intellectual property before someone else did. . . . Yikes.

You see, as a budding business owner, I made the fatal mistake of believing that my passion was enough to ensure that I would be successful. I loved my work. I was enthusiastic about what I had to offer. However, a business doesn't succeed by simply running off into the sunset with great ideas. This isn't a romantic comedy, friends; it doesn't work like that.

A successful business cannot be fueled by passion alone.

Being a boss at marketing consulting doesn't mean that you'll be able to leave your day job if you don't have a strategic business plan to turn your side hustle into a full-time thing. Scaling to six figures doesn't guarantee a profitable year if you screw up your taxes and end up owing thousands in fees to the IRS. Launching one great product doesn't mean you'll be able to stick it out for the long haul if a cash-flow catastrophe looms on the horizon.

You see where I'm going here. . . .

I, like so many other business owners, struggled to understand that in order to overcome the challenges of entrepreneurship, we have to rise into the role of CEO with confidence and gusto. We have to tackle the hard things. We have to confront legal and finance conversations head on—otherwise, we're not running a business. We're just profiting off of a hobby.

We have all heard the statistics. According to the Small Business Administration, 20% of small businesses fail in the first year. By year five, that number rises to nearly 50%. The odds are stacked against us from the outset.

So what must we do to turn the tide in our favor? How do we fight back against the very real challenges facing every business owner around the world.

It starts by shouting: Not today, satan statistics.

And continues by walking directly into the hard conversations that accompany being a boss. There is a reason that this book has a no-fluff, tell-it-like-it-is title. There is a reason that you felt drawn to pick it up. You aren't looking for someone to pat you on the back and tell you that this is going to be easy.

You know it is going to be tough and you are ready to do hard things.

So, let's get to it.

I first met Braden Drake through his leadership in the Rising Tide Society, a community of over 70,000 small business owners that I co-founded in 2015. In cultivating this community, I have had the opportunity to support tens of thousands of entrepreneurs, and I have discovered a lot about the small business success equation.

Most importantly, I have learned that most of the mistakes that nearly destroy small businesses are avoidable. Yes, you heard me. Many of these deadly mistakes could have been prevented.

How? A business and financial plan, an understanding of tax liability, a proper legal structure, maintaining a strong cash flow, and sustainable systems that keep operations going seamlessly.

You don't know what you don't know—and when you don't know the rules of running a business, you're bound to get into trouble.

This is one of the reasons that I am so passionate about leading a community, specifically one that champions accessibility to education. There is tremendous value in learning the best way forward from experts like Braden instead of making costly mistakes and figuring it out yourself.

There is no trophy for pretending that you know it all either. The best business owners are constantly open to learning, improving, and admitting when they’ve made mistakes. They embrace failure like a bear hug (in pre-pandemic times of course).

If you’ve ever thought to yourself, *I might have screwed up my taxes/business/legal documents/etc. What do I do?,* you are in the right place.

Enter Braden, a man whose expertise has helped countless businesses turn themselves around and get out of the red. This book takes all the legal jargon we as business owners find confusing and crafts it into a digestible conversation over cocktails.

Braden’s passion for business planning and tax law is simplified so that you feel comfortable retaining and truly implementing what you learn. You will flip through each chapter feeling like the boss that you already are.

Toss aside your preconceived ideas of lawyers and accountants in stuffy business suits, unfamiliar vocabularies, and boring conversation . . . because Braden is here to spill the tea on how to truly unfuck your biz.

Natalie Franke

INTRODUCTION

It’s never fun when people cry in your office. I’ve been there a few times, and it’s not something law school prepared me for.

It happens every tax season. Creative small business owners send us all their tax docs. We prep the return. I try to brace them for the tax balance. Sometimes there’s shock, and tears follow. I do my best to reassure them they can get the back taxes taken care of. The first time this happened was with a wedding photographer. She hadn’t paid quarterly taxes. I delivered the news of her $10,000 tax balance. It was a turning point for me.

Before offering tax services, I was used to working with clients on the legal side, which you may be surprised to hear was typically much lighter and fun. Business owners would come and work with me when they were ready to form their LLCs and contracts. These were exciting stepping stones in business.

That first tax season taught me that there was a huge need for education in the industry. Clearly there was a disconnect. Business owners weren’t learning about quarterly taxes, deductions, and the like.

I spend much of my time in female focused entrepreneurial circles where there are common themes around concepts like #girlboss, a term that’s fallen a bit out of trend. Even if you don’t identify with “girl boss,” “SheEO,” “boss mom,” or “boss babe,” you are the CEO and boss of your own business. You're an entrepreneur, and the label you give yourself is an important one. It's key to your own mindset if nothing else.

But being a boss should be about more than just empowerment. A true CEO must not only have belief. They must also take business seriously, which entails learning all the concepts taught in this book. What we mustn't, however, confuse is taking our business seriously with taking ourselves too seriously. Balance my friend. CEOs don't have to be boring hardasses.

And that is where I believe my own superpower comes in. I teach you how to step into the CEO role of your business without letting go of the fun in entrepreneurship. And I do that through a simple six-step framework.

THE UNF*CK YOUR BIZ STORY

A few years ago I was "on the hotseat" at a business retreat. I presented a problem. I don't even remember what. It was day two of three, and I had explained my business several times to my group. They were confused. Like super confused. One person said, "So you have two businesses?" Another thought I am a CPA. (I'm not. I'm technically a tax attorney.) They didn't get my business name. There were issues.

When you're in that situation, there are only about three logical conclusions:

1. All these people are dumb-dumbs,
2. I'm not explaining well, or
3. Something about my messaging or business model is off.

Sometimes we bargain with ourselves, arguing it must be number 1. But that's typically ego talking. Had I not already explained my business seven times, I would have assumed we were in number 2 land, but I had to suck it up and admit something was off. I was clearly in number 3 territory.

I thought, *If these business owners (most of whom are more seasoned than I am) are totally confused, how the eff must my potential clients, students, and readers be feeling? Do they understand what I'm all about? Do they understand who I help?* The answer was probably no.

At this point, I'd figured out who I serve, what I offer, and what my brand voice is all about. I'm an attorney with a master's in tax law who swears, is fabulously gay, and loves a good GIF. My mission is to educate and empower, and I work with business owners who take their businesses seriously, but themselves not too seriously.

The missing piece was clearly the messaging around what I offered and how I could really help people. The group convinced me that I probably needed to rebrand. My business name at the time was Creativepreneur Community.

One of my friends asked if I served primarily brand new business owners. I paused and—I remember this quite distinctly—said, "No. Most of my clients don't work with me until they've already been in business for a few years. They've already made some mistakes, so I help them unfuck their biz."

Bingo.

"That's your new name!"

I was excited for a sec. But then I clutched my pearls and thought, *Surely, no. I shan't. Who in heavens will take me seriously?* I got over it. Clearly, it hasn't been a problem. You're now reading a book with the same title.

That's how Unf*ck Your Biz as a brand began. It was the actual business name for my education company for a while. Now, I operate primarily through my law firm, the Not-Your-Average Law Firm, where we serve not-your-average clients with all their legal and tax gremlins. Unf*ck Your Biz became the name of my podcast (we're at 300 episodes and counting) and the name of this book. But it all started with me determining what my core framework would be.

I started brainstorming what the Unf*ck Your Biz Framework would look like. The key question was: How can I comprehensively teach business owners how to get their legal and tax shit legit in a way that won't take years, cost thousands of dollars, or involve several meetings with stuffy professionals? You know, those guys who probably have corner, downtown offices? They wake up, shimmy into their suits, and hop in their Mercedes to go spend all day mansplaining to lovely people like you rather than explaining concepts like S corp reasonable salary in a way that makes sense to someone who didn't spend $300,000 on law school.

My mission is to not be that person.

I drafted. I brainstormed. I outlined. I did all the things, and developed the Framework. I launched an initial beta group coaching program to test it out, collected feedback and made updates, and relaunched the program. I learned that back taxes are much more common than most of us realize and which logical steps need to be taken before others, which should be postponed, and which aren't even needed. So I reworked the Framework. After that program, I made more updates based on the feedback from those students, which became the foundation for the first edition of this book. Since then, I have tweaked and expanded the Framework. I even redeveloped it into a membership, and then redeveloped it again back into a course and added a step.

In the first two editions, I walked readers through the streamlined version of the Framework. In this new edition, I decided to just lay it all out there and give you the full Framework. You can rest assured it's been vetted by myself, my industry peers, and your own peers. You can trust the process.

The process has been born from the feedback of business owners like you. Continuous improvements are expected, but I'm confident the Framework I teach you in this book is one of the most comprehensive *and* streamlined methods out there to unfuck your biz.

And the book will give you all the info you need to accomplish that goal. But the book also serves double duty as the text for our Unf*ck Your Biz program. It's a course with high levels of support from me and my team. You can learn more and join at www.unfuckyourbiz.com. Throughout the book, you may notice references to "the course," to "the program," or to "students," which all refer to this program and students of the program.

Throughout the book, we also have callouts for our students, like the one below. They are always labeled "For Students" so you know it's a task or note for students of the Unf*ck Your Biz program. If you're not a student, you can skip those (or come join us!). If you are a student, read carefully.

FOR STUDENTS

Make sure to watch the welcome video in the program, and read through the "Everything You Need to Know" section. That's where juicy info is about our supplemental guides I'll reference throughout, our course videos, and all the amazing course support.

While I'd love for each and every reader of this book, including you, to become a student, what I'd really love is for you to read this whole book and take at least your first few steps. You'll find most of the information you need here to at least develop your roadmap. You have your destinations, landmarks, and many details. How you accomplish those details is up to you. You may decide to hire someone (hopefully us at www.notavglaw.com), do some extra research and DIY, choose a mix of both, or join my program to get the full system. Either way, I promise you'll be a more well-informed business owner when you're done reading.

ABOUT THE FRAMEWORK

I’m a big-picture gal. Before diving into details, I want the 10,000-foot view. What are the primary steps? It’s like planning a road trip. First, you gotta figure out where you want to go. What’s the final destination? Ours in this book is unfucking your biz.

With the final destination in mind, you determine which landmarks will guide your road trip route. If you were planning a trip, what would you plan to see? Our landmarks are the six steps within the Unf*ck Your Biz Framework: Account, Tax, Unf*ck, Layer, Form, and Flow. You’ll follow these six steps to unfuck your biz.

ONE	**PART 1: ACCOUNT** Objective: Finish your bookkeeping
TWO	**PART 2: TAX** Objective: Estimate quarterly taxes
THREE	**PART 3: UNF*CK** Objective: Fix back tax & formation issues
FOUR	**PART 4: LAYER** Objective: Contracts, insurance, IP
FIVE	**PART 5: FORM** Objective: Form your sole prop, LLC, or S corp
SIX	**PART 6: CASH FLOW** Objective: Create your cash flow policy

Once you check the boxes on the big stuff (our landmarks), you can get granular. This is where my husband thrives. He created a five-page, printed itinerary for my 30th birthday trip to New York City. My planning usually would stop short of that. Unfortunately, spontaneity isn't ideal when we're unfucking a biz. Just like my husband researched the best bagel place near our hotel and the specific subway line we'd need to make our way to see Serena play in the U.S. Open, we too need to consider details. This book's parts are outlined according to the landmarks, our six steps in the Framework. Each part has three to four chapters. Each chapter gives you the to dos and how tos for that particular step, with action items and key takeaways to wrap up.

OUR LANDMARKS

I'm a big believer in learning before doing, but sometimes—like when legally forming a business—that's not ideal, so for this new edition, I shook things up a bit.

Instead, we want to gather knowledge before we hit go. In Part 1, we cover accounting. Your core objective in this part is simple: get caught up on your bookkeeping. You need the data from the books to help you work through each successive part.

In Part 2, I teach you basically everything you never cared to learn about taxes but that you will thank me for later. You're welcome. Your goal is to determine how much of every dollar you earn should be set aside for quarterly taxes.

In Part 3 (Unf*ck), we fix structural issues in your business. Like a building, you can't build a business on a shoddy foundation. Take, for example, the now-infamous Millennium Tower built in San Francisco in 2008. After discovering the building full of multi-million-dollar condos began sinking and tilting, defendants started to point fingers and file lawsuits. (The parties reached a settlement to ensure the building remained safe for the condo owners.)

But unlike a billion-dollar building project, most business owners don't have a team of experts guiding them to do things correctly. If you're a brand-new business owner, and you haven't taken any steps covered in this book, awesome! You're getting things done correctly from the beginning. Unlike the Millennium Tower, you'll have a solid foundation from the start. You're the exception to the norm.

If you're already in business and thinking, *Well shit, Braden. That sinking building really sounds like my business,* no sweat. You are who this was written for, and you can take comfort in knowing you're the norm.

As I was putting the finishing touches on the first edition of this book, poolside on a family vacation, my sister asked me if it's for brand-new business owners. She's a personal trainer and nutrition pro, owns her own gym, and had been in business for about five years at the time. A few months ago, I helped her set up an S corp, payroll, and her cashflow. I explained that most of my students were in a similar place, and most the readers of this book will be as well.

Out of all the Unf*ck Your Biz graduates, about 80% have been in business more than two years. Only about 20% had LLCs before joining. More than half had not been saving for quarterly taxes, and about a quarter owed back taxes.

Turns out, the reasons most of my students aren't newbies makes a lot of sense. In marketing lingo, we'd say most new business owners aren't "problem-aware." Entrepreneurs often aren't aware of the legalities and tax complexities until they're a couple years in. This is why our Framework is called Unf*ck Your Biz, not Don't F*ck Your Biz. Your business is like your house: Even with the best intentions, it gets a little messy. We're here for spring cleaning.

This may be a more apt analogy for our businesses than the Millennium Tower. Some businesses may need a cleaning, or maybe the construction is solid but its storm-proof roof needs some maintenance. Can it be patched or do you need a new roof? Sometimes the house is shit and you gotta knock down the whole damn thing. Our goal is to assess which repairs your business needs before taking the best steps to make a permanent fix.

The repairs you typically need to make within the context of the Framework are with back taxes and legal formation mistakes. That's what we'll cover in Part 3 of the Framework. "Back taxes" refers to unpaid, past due taxes owed, and past due tax returns that need to be filed. You get caught up on filing and, at a minimum, formulate a plan to catch up on payments. Then, you consider any mistakes and necessary fixes with your legal structure.

After you have cleared the poor construction, you're ready to reform (Part 5), but first you gotta treat for pests. A fucked-up business is constantly under threat by legal gremlins like the Litigeous Lindas, Copycat Carlas, and Mansplain Michaels. They're like little termites trying to gnaw away at that foundation we're building. An unfucked business ensures there are several layers of protections between the gremlins and the business owner, you. We cover what these layers are in Part 4.

In Part 5, you round out your layers. We cover legal liability issues in business and different ways to legally structure your business. Your objective here is to determine which entity is right for your business.

Lastly, you unfuck your cash flow with Part 6, which includes getting bank accounts in order. We wait to do this in step six for two reasons. First, if you're forming an LLC, that must come before banking (because your LLC must be the owner of the account). Second, banks require legal documentation, which we cover in step five.

I designed this Framework for business owners like you to unfuck their business within one business quarter. Ideally, you can knock it out in three months, or one if you really want to.

Ready? Let's unfuck your biz.

PART

01

I hope you're ready to get this party started. We're diving straight in. We have two key objectives in Part 1. First, we lay the foundation for how the IRS calculates our taxes. We finish that learning process in Part 2. Second, you learn how to start your bookkeeping. This is a big change from the first two editions of this book. I have since found that getting the books out of the way gives you the data you need to take action in Part Two through Part Six.

I don't expect you, even after completing this book, to have a detailed knowledge of these topics such that you could give a full-blown presentation. My goal is that you learn enough about tax basics to form an intuitive understanding that guides you to at least know how to find your own answer or when you need to hire expert help.

With that goal in mind, let's get rollin'.

CHAPTER 1

CALCULATING NET BUSINESS INCOME

In this chapter, you learn how to actually find business profit, the first step in knowing how much you personally owe in taxes each year. And I get it: That may not sound like a blast. I never promised this would be Harry Potter–level enjoyment, and while there's no quidditch, Triwizard Tournament, or Battle of Hogwarts, I promise it'll be the most fun book you've read on law and tax for creative and service-based small business owners who enjoy titles with swear words.

SCHEDULES AND FORMS

Imagine a tax return as a giant binder full of forms. We're talking about a thousand pages. Each form has a number or letter (Form 1040, Schedule C, Schedule E, and so on). The first form is the 1040. The Form 1040 is like the cover page. It's a snapshot of your tax return. It asks for your name, address, social security number, and spouse's and children's information.

In the bottom section of the form, it asks for your W-2 income, business income, and other areas of income and "adjustments." If we assume you have simplistic taxes (for example, say you get a W-2 and have no other income nor wish to take no other tax benefits), you could actually just fill out Form 1040, sign it, attach your W-2, and mail it off to the IRS. That's your completed tax return.

However, most of us need more forms. If you have a child, you'll claim a child tax credit on line 18b of the 1040. That will direct you to the Schedule 8812, so you'd flip to that schedule in our hypothetical binder and fill it out. If you're a student, you want to claim the American opportunity credit on line 18c of the 1040. That line directs you to flip to Form 8863, so you find that and fill it out.

If you're reading this book, you likely have self-employment income. As you scan through the 1040, you'll notice line 7a asks for "other income." To calculate other income, you must fill out and attach a Schedule 1. You flip to the Schedule 1. It has a whole host of lines as well. Line 3 asks for your business income, but to find business income, you must flip to the Schedule C. (I explain this form in more detail shortly.)

FOR STUDENTS

Skim through the tax forms in your program workbooks for a visual of these forms.

It's like a Russian nesting doll but less fun. In college, I visited Russia twice. (I was a Russian language and political science major. I thought maybe I'd be a diplomat or a jet-setting international businessman. Turns out, I could have been. As a tax attorney, I took a lot of niche courses in international tax.) In between hikes and looking at oil spills in Siberia (the second trip had an environmental focus), we visited several outdoor markets where women hand-carved, hand-painted Matryoshka, Russian stacking dolls. You could buy sets of five all the way up to sets of fifty.

Your tax returns are like a Matryoshka straight out of a Russian market: For some of us it's like an inception of 100 forms; for others there are just a few.

For all of us solo, non-corporate business owners, the Schedule C is one of those forms. You fill out the Schedule C, find your business income, and plug that into line 3 of the Schedule 1. You finish the Schedule 1 to find your "other income." You take that total and plop it back onto line 7a of the 1040.

You can imagine the number of forms you'd be flipping to in the binder if you owned multiple businesses, rental properties, and investments, and claimed other, more unique tax benefits.

When you use a program like TurboTax, the program asks you questions and lays out the process in a more digestible way. The software transposes that information onto the proper tax forms. You provide an electronic signature, and it bundles up your own unique binder of tax forms—the relevant ones—and submits it to the IRS for you.

When you hire a tax pro, it's a similar process. They'll likely use more sophisticated programs and bill you by form. Makes sense, right? The more complicated your taxes, the more information they must gather, and the more forms they must complete. It's like those ladies in Siberia: The more stacking dolls in the set, the more they charge. More labor equals more cost.

This is how we bill for returns in my firm, the Not-Your-Average Law Firm, the firm for not-your-average clients. We send an invoice for the estimated total and then a second invoice if any additional forms are needed before filing.

Now imagine you file your own tax return. You get a call from the IRS and the agent says you're a fifty-stacking-doll kind of taxpayer, but they only got forty-nine forms. Or you might get a letter that says something like "Blah, blah, blah, bloppity blah. . . . Please complete IRS Form 8962 and fax it to 555-UGH-TAXES."

That's scary. Are you getting audited? Did you fuck it up? What's going on? In this case, what most likely happened is, if you self-filed, you forgot to check a box, maybe you answered a question wrong, or maybe there was an issue with the tax software (less likely) and the program, therefore, did not complete a certain form. Form 8862 deals with health insurance when you have a plan through one of the exchanges. If, for example, you stated on your return that you have private insurance through an employer, you wouldn't be prompted to fill out that form. The software wouldn't include it in your binder, and the IRS may come knocking to get it.

What do you do? Google the form, fill it out, and mail it to the IRS. If you get stuck, there's probably a YouTube video that can help. You may or may not owe a difference on the tax. If you do, you send in the payment. Boom—you're done, hopefully.

Now you may be thinking, *Why is this the logical starting point for this book?* Because, when I toss around terms like *Schedule C* and *W-2,* I want you to simply understand that those are tax forms, but that they also carry a specific meaning.

2 TYPES OF IRS FORMS

I mentally separate IRS forms into two categories. First are the informational request forms (the W-9s and W-4). The purpose of those is to collect information needed for the second type of form: the informational forms you get to help file your taxes (the 1099s, W-2s, K-1s, and the like). These forms are completed by a third party and issued to you, and you report that info on your tax return.

For example, a 1099 reports payments that are not wages. If a web design company hires a graphic designer to do contract work throughout the year, that company will take a tax deduction for the amount paid to the designer.

The IRS wants to verify that a reduction in income by one person correlates to an increase in income for another person. The IRS does this with 1099s. If a company files a 1099 for you, but the IRS does not receive a tax return matching that 1099's info, the IRS now has an inconsistency that can trigger an audit, letter, request, or phone call, to collect taxes on that unreported income.

K-1s and W-2s serve the same purpose. These are our "informational forms."

The second type of tax forms are those that are part of the tax return. These are forms like the Schedule C.

SCHEDULE C

The Schedule C is the form you (or your tax software) fills out to report your business income **if you are a sole proprietor or a single-member LLC.** If some smarty-pants asks if you file a Schedule C, they're effectively asking if you are a sole prop or a single-member LLC.

We will talk more about what a sole prop actually is in Part 2 and Part 5, but here's the gist: If you don't have a business partner, and you haven't formed a "formal entity" like an LLC or a corporation, you'll be a Schedule C filer. Before continuing, take a second to Google "IRS Form Schedule C." Open it and give a quick skim.

You'll see that it asks for your business name, employer ID number (EIN), accounting method, income, costs of goods, and various expenses. If you're ever confused about how your business profit is calculated or what may or may not be deductible, it's always a good idea to start with the forms to get some insight.

The lines in the expense section of the Schedule C show common categories and what's allowed. Every IRS form also has a set of form instructions. These instructions tell you how to fill out various lines on the forms. Look at line 23 of the Schedule C, for example. You'll find this is where you report deductions for taxes and licenses. But maybe you don't know what the IRS considers to be a deductible. You can Google the IRS Schedule C Instructions and go to the section on line 23. It will tell you:

"You can deduct the following taxes and licenses on this line.

- State and local sales taxes imposed on you as the seller of goods or services. If you collected this tax from the buyer, you also must include the amount collected in gross receipts or sales on line 1. . . ."

That part of the instructions lists several other taxes, but also goes on to state what you cannot deduct, including federal income taxes.

1065s AND 1120s

Partnerships, S corps, and C corps actually file business returns. We will talk more about the distinction between these later, but for now, just know that they use different forms.

S corps file an 1120s and partnerships use Form 1065.

SELF-EMPLOYMENT INCOME

When I was a baby Braden, I remember playing the "I'm going on a trip" game. Do you remember that one? I'd say, "I'm going on a trip, and I'm taking a Skip It." The next person would say your thing plus one more. "I'm going on a trip, and I'm taking a Skip It, and my autographed copy of the latest Backstreet Boys single on cassette." The third person adds her peak '90s inflatable furniture to the list. A few more rounds in, and you've added a Tamagotchi, Scary Stories to Tell in the Dark, and a notebook with all your friends' phone numbers, which you'll need when using your prepaid minutes phone card to share your thoughts on the latest *Boy Meets World* plot twist.

In this game, you're "out" when you forget any item in the order. When you play, you find that you can remember quite a bit when repeated in a repetitive manner. If your friend spouted out a list of ten things, and you had to repeat it back, you'd be hard pressed to remember. I use this tedious memory device to teach taxes. We start with the first step and methodically move forward.

Taxes are calculated by taking all of our income, adding it up, subtracting from that total certain deductions, and calculating the tax on the balance. Our starting point is understanding what the IRS considers to be taxable income, and we narrow in even further to self-employment income. This is the first item we're taking on our trip.

The IRS defines self-employment income as "income earned from carrying on a 'trade or business' as a sole proprietor, an independent contractor, or some form of partnership."

For *most* purposes, business and self-employment income are the same. Notice that the IRS's definition above does not include income to S corps or C corps. The income may not technically be from self-employment. (This will make more sense in a bit.)

I'd like you to consider my personal, simplified definition: Self-employment business income is any money earned in exchange for something else of value outside of an employment context.

My former income tax law professor could find some faults in that definition, but it will work for us. We distinguish self-employment income from all other types of income because it's taxed in its own unique ways. Note that in my definition I use the phrase *in exchange for something else of value.* This is because bartering is also considered a taxable event.

For example, I hired an editor to help me with this book. If she had said, "You know, I really need some help for my business. Can you add me as a student to Unf*ck Your Biz as a trade for my editing services?" If I said *yes,* the value of her editing services would technically be taxable income to me. It's a form of compensation I'd be receiving in exchange for providing a product or service in return.

Let's look at some more common examples of self-employment income.

- Elle is a law student. She decides to start a weekend gig tutoring undergrads on the LSAT.
- Tamika works full-time in marketing. She loves design. She agrees to provide interior design services to two co-workers who are moving.

Elle and Tamika both have self-employment income. Tamika might argue that she doesn't really have a business, and thus the money from her co-workers isn't really self-employment income. In that case, she'd look more into what the IRS considers to be a "trade or business." We won't go down that rabbit hole because I'm making a big assumption here—which is, if you're taking the time to read this book, you, at a minimum, intend to have a profitable business.

That intent is enough to make your income self-employment income. We're not hobbyists here. We are very serious capitalists and entrepreneurs seeking profits. But if you want to use those profits to defeat the patriarchy and further world peace, I support you.

FREELANCERS VS. BUSINESS OWNERS

Here's a common question I hear: What's the difference between freelancers and business owners? The short answer is there is no difference.

Look back at that business income definition. There may be a few differences regarding licensing and legalities. We will get to those later, but you'll notice that, at least *for tax purposes,* it doesn't matter what you call yourself.

When we're wearing our tax hats, we don't really care what we call ourselves. It has more to do with whether you meet the IRS's definition of self-employment income.

FINDING BUSINESS INCOME

Our starting point in understanding your full tax picture is determining total business income. It's relatively straightforward. You simply add up all the money you received from providing services or selling goods in your business.

As an example, my primary income streams are payments from one-on-one legal, tax, and bookkeeping clients, payments from our Unf*ck Your Biz program, and payments from our legal and tax memberships, Profit Rx and Legal Rx (your prescriptions to *keep* your legal and tax shit legit). I also get paid for speaking events, I'll have income from sales of this book, I earn affiliate income from several referral partners and programs, and I occasionally promote paid workshops. These are all streams of income in my business. The total of each stream of income represents my total, gross business income. That's fairly straightforward.

Where many business owners get tripped up is when the 1099s come rolling in during tax season. If you provide services to other businesses, they may send you a 1099. You report that 1099 on your tax return.

Let's look at an example. Gina is a graphic designer. She creates 100 logos for $500 each. That's some high-volume work, but the math is pretty simple: Gina has $50,000 in business income from those services. It's taxable income as soon as Gina receives the money from the clients.

Now, let's assume Gina builds two websites for $10,000 each in addition to those 100 logos for $500 each. Now her total income is $70,000. Both of her web design clients send her 1099s for $10,000 each. When Gina files her taxes, she will file a Schedule C. On that Schedule C, she'll report both the 1099s and all her other income.

Gina's bookkeeping system will show $70,000 in income. When she's completing her Schedule C, she'll take any amount reported on 1099s for her business out of her total business income in her books. Gina had $70,000 in income and inputs her $20,000 in 1099s. She then reports "other business income" of $50,000, which is the difference.

Now let's mix this up a bit more.

Assume this year Gina has all the same income as last year. In addition, she also gets a new client who has her fill out a W-4 so that she can get on payroll as an employee. At the end of the year, she gets a W-2 from that client for $30,000. Now, what's Gina's business income?

It's the same. That $30,000 is *employment* income. It's separate and apart from the business income. Gina should be depositing those employment paychecks straight into her personal bank account and not in her business account. When she files taxes, she still has $70,000 in business income on her Schedule C, and she has $30,000 in employment income that is *not* put on the Schedule C. (We discuss non-business income more in Chapter 2.)

DEDUCTIONS

Let's continue our earlier game analogy. Instead of "I'm going on a trip," though, we will say, "I'm calculating my taxes." I'm calculating my taxes, and first I'm finding business income. Then, I'm totalling my business deductions.

We call them deductions because they deduct from income. If you have $10 in income, and a $1 deduction, you deduct that $1 to have $9 in income.

Business deductions reduce your gross business income to net business income. The IRS calculates taxes on the net business income. Assume for a moment that we have a flat tax percentage of 10%. The IRS, in this fictional universe, only collects 10% of all ***net*** business income.

If you have $100,000 in income, the 10% tax would total $10,000. Now assume you have a $10,000 deduction. How much are taxes now, and how much does that $10,000 deduction save you? Pause for a minute to do the math.

You deduct the $10,000 from the total income of $100,000. Thus, the net business income is $90,000. Now, the 10% tax is $9,000. In other words, that $10,000 deduction saves you $1,000 in taxes.

I highlight the net impact of deductions on your taxes because they're often misunderstood by new business owners. Every November and December I talk to business owners who say something like "I need to invest some more in my business to lower my taxes this year."

To me, this has never really made sense. Let's break this down with some more realistic numbers. In Chapter 4, I explain tax brackets in more detail, but for now, note that we have graduated tax brackets, meaning the more you make, the more you pay in taxes.

So assume that you have $100,000 in *net* income with an effective tax rate of 21%. Your taxes would total $21,000. At the end of the year, you think, *Well shit. I made a lot. That's a lot in taxes. I should spend some more.* You drop $40,000 in expenses: prepaying some stuff for the next year, buying courses, office furniture, and a new computer, and joining a pricey mastermind.

Now, net income is $60,000. If we assume an effective tax rate on $60,000 of 16%, your tax is now $9,600 (versus $21,000). The difference in tax is $11,400. You would have spent $40,000 to save $11,400.

Don't think about deductions as free money. Think about them as a discount on whatever it is you're buying. For example, assume that $10,000 of that $40,000 went toward a year-long mastermind. Look at that tax savings as a 30% discount. It's like you saved $3,000 on that mastermind. Is the mastermind worth $7,000? Are you happy with that? If yes, awesome! Spend the money and take the deduction.

Use this type of analysis before buying shit to "reduce your tax bill." If you need a new computer, buy a new computer and deduct it. If you don't need a computer and spend $1,000 on one, but save $100 due to the tax deduction, you're tossing away $900 that would be better off in your personal bank account. Deductions are great. Profit is better.

Make sense? Are you catchin' what I'm throwing out there? Pickin' up what I'm layin' down? Bitchin'. Let's now discuss what we actually can deduct. Let's revisit the Schedule C. Give the form a Google and follow along.

First it asks for income and cost of goods. Technically speaking, costs of goods sold is not a deduction. (It has its own funky rules. We're skipping over that.) When calculating net business income, you start by finding gross receipts (total business income). Then you subtract the cost of goods sold to find gross profit. For those of us who don't have costs of goods, our “gross profit” is the same as gross receipts.

From there, you add up all deductible expenses and subtract that total from the gross profit, in order to find the net business income. Let’s consider this in a more fun, non-business example.

Your best friend is throwing a surprise party for her college best friend who happens to be back in town. In an effort to assert your place at the top of the best friend hierarchy, you volunteer to help with the party. Your friend gives you $300 to go buy some decorations and other things.

Your friend asks you to find a cardboard cutout of her friend’s favorite celebrity crush. Mine would be Regé-Jean Page or Henry Golding. Tough call. Your friend’s friend is more of a fan of Scarlett Johansson as Black Widow.

You find the ScarJo cutout on Ebay for $50. There’s a processing fee of $10. You discover the seller is in the next city over. You pick it up in person to expedite the process. You also buy a cake for $50 and some party decorations for $50. How much money does your friend get back? In total, you spent $160. You could give your friend all the receipts to add up the expenses and give back the difference of $140.

But maybe that drive was an hour, and you had to get gas. Would you pay for that out of the $300? Probably not. You also had to stop and get lunch. Would you pay for that out of the $300? Not likely.

Assume instead that some random person hires you to do all these things and pays you $300. You'd want to take a deduction for all those items. They're eating into your profit. In order to find your profit, you gotta total your expenses.

Now our question is: What can we deduct according to the IRS? According to the IRS website, "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."

In the Small Biz Tax-Deduction Guide (see Appendix A), I share some of the specific rules and common categories of business expenses.

However, if you ever find yourself wondering whether you can deduct something, start by asking if it meets this definition of ordinary and necessary. From there, you can see if the IRS has more specific guidance on the deduction in particular.

CHAPTER WRAP-UP

Now that you know how to calculate gross and net income business income, you're ready to add a few complexities. In Chapter 2, we discuss other forms related to income and the next steps in determining the tax you actually pay.

TAKE ACTION

- Do a Google search for the IRS Tax forms discussed in this chapter and give them a quick skim.
- Review the Glossary of Terms for a recap of key terms.
- Read the Small Biz Tax Deduction Guide (see Appendix) and see how these categories align with your bookkeeping.

FOR STUDENTS

- Watch the chapter videos.
- Bring any deduction questions to one of group Q&As.

KEY TAKEAWAYS

- The tax forms are a great starting place whenever you want more info on how something impacts your taxes.
- Finding net business income is the starting point to calculating taxes.