



2012 ASSETS LEARNING CONFERENCE

Self-Employment Tax Preparation

September 19, 2012

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SPEAKERS

- **Lauren Williams**, Program Manager at CFED
- **Tom Larson**, Self-Employed Program Manager at AccountAbility Minnesota
- **Rebecca Pear**, Small Business Tax Counselor at Brooklyn Cooperative Federal Credit Union



SETI

The Self-Employment Tax Initiative



Lauren Williams
Program Manager, CFED

What is SETI?

A Small Business Development Strategy

SETI uses the **tax code** to deliver essential **business development** and **financial services** to low-income entrepreneurs.

Why SETI?

The mandated business tax preparation moment provides a perfect opportunity to introduce **more** startup businesses to **more** business development and asset-building services.

Why does this approach work?

Community-based tax assistance programs are **excellent** partners.

Filing taxes can help new business owners better understand their **finances**.

Tax credits like the EITC can facilitate **asset-building** for low-income households and business owners.

What does **SETI** do?

1 Award grants

SETI supports community-based tax assistance practitioners that provide free or low-cost tax assistance paired with business development and asset-building services and products.

What does **SETI** do?

2

Research & Field Building

SETI collects data and disseminates lessons learned from local partners.

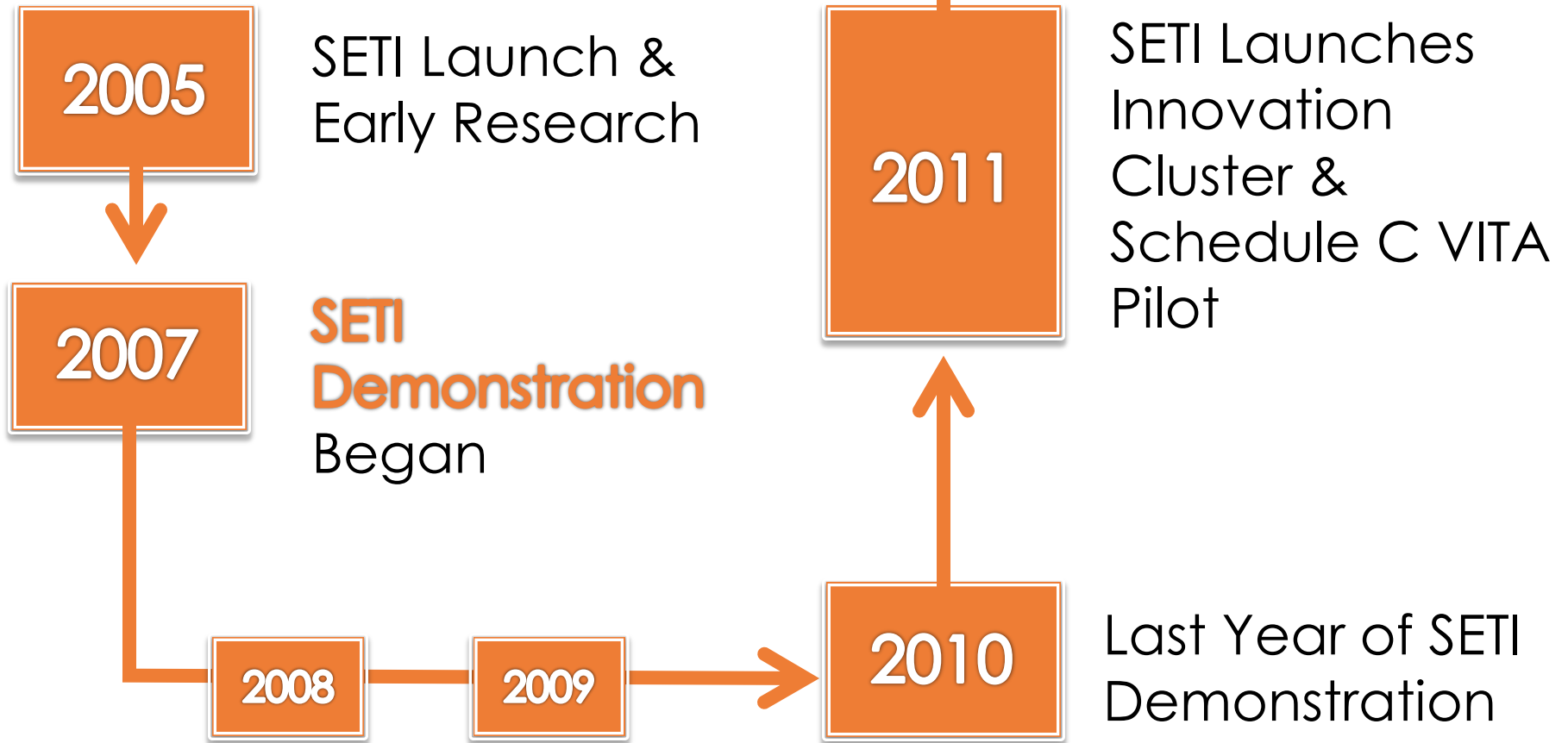
How does **SETI** work?

3

Promoting Sound Tax Policy

SETI engages with policy partners to help analyze, understand and test the boundaries of tax policies that affect lower-income self-employed business owners.

A Brief History



Core **SETI** Activities

**Practice &
Field Building**

Communications

Policy

Research

SETI Today

Policy + Practice & Field Building

GOAL

Create, launch, test and **evaluate** a pilot that will have a national impact and expand the services offered under the Scope of VITA.

PURPOSE

1

Determine the efficacy of **expanding the parameters** of VITA to include Schedule C services.

2

Identify, develop or repurpose a **suite of companion tools** and resources to advance the tax assistance field.

Fee-for-Service Tax Assistance @ Brooklyn Cooperative Federal Credit Union

CFED

- Providing TA & Field Building Support
- Developing Materials to Build Knowledge Base
 - Lessons Learned from Innovative SETI Partners Shared via Webinar & Written Report
 - In Depth Implementation Guide (2013)

BCFCU

- Providing low-cost Tax Assistance at Credit Union
- Connecting Filers to CU and Business Dev. Services
- Collecting Data

Self-Employment Tax Preparation

AccountAbility Minnesota

St. Paul, Minnesota



AccountAbility Minnesota
tax & financial services for those in need

Scope of our self-employment program (2012 stats)

- More than 720 Schedule C's and C-EZ's prepared
- 87% of our clients earn less than \$30,000 annually
- 80% file either HOH or single
- 59% of our clientele are female
- 57% are returning customers
- Occupations include tutors/teachers, child care providers, painters, carpenters, performing artists, photographers, dog groomers, hair stylists, and a psychic.

To date in 2012, AAM has leveraged the help of 550 volunteers to prepare taxes for nearly 12,000, putting \$21.1 million directly into their pockets.

A customer's perspective

“Each year they [AAM] send me the organizer and it’s completely changed how I keep track of things,” said Mary.

“I know what records to keep and which ones don’t count. During preparations I ask the volunteer questions that will help be better prepared for next year. At the end they sit down and walk through the tax return and make sure I understand everything.”



Tax time – opportunities to learn

- **Pre-filing** – Identifying income and expenses
- **Filing/tax time** – Learning about deductions and taxes (income, self-employment)
- **Post-filing** – Lessons learned from tax preparation enable customers to more efficiently manage their business and finances

Understanding tax basics will help the self-employed establish, run, and expand their businesses.

How we do it

- **Tools:** Our tax organizers, mileage log, and income and expense spreadsheets are sent out prior to tax preparation and are required
- **Orientations and 1:1 :** We work with customers before their appoint to help them prepare for tax preparation
- **Appointments only:** Customers know their preparation date and need to do their homework
- **Quality review process:** One volunteer prepares and another reviews



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SELF-EMPLOYMENT TAX ORGANIZER

MAIN INFORMATION	
Type of business or profession	
Business name	
Business address	
Business telephone	
Business start date	

PART I: Income	
Form 1099(s) including 1099K	
Cash or checks	
Sales tax collected	
Prizes, awards, gifts received for direct sales of products such as Tupperware or Avon.	
TOTAL GROSS INCOME	\$



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PART II: Business expenses			
Advertising	\$	Overnight travel	\$
Commissions and fees	\$	Utilities (other than household)	\$
Business liability insurance	\$	Professional education	\$
Interest on business loans or business credit cards	\$	Bank charges	\$
Legal and professional fees	\$	Safety equipment and specialized clothing	\$
Office supplies	\$	Freight and postage	\$
Rent or lease of equipment & property	\$	Dues and publications	\$
Repairs and maintenance of equipment	\$	Telephone and long distance (only 2 nd line in home is allowed)	\$
Other supplies	\$	Cell phone – annual charges	\$
Business licenses	\$	Cell phone – % business use	%
Sales tax paid to state	\$	Other – list item	\$
Business meals	\$	Other – list item	\$



Challenges

- High demand during tax season
- Screening - to determine eligibility, understand customer businesses, and identify what customers need to do before the appointment
- Customers keeping good records
- Schedule C preparers need specialized skills; self-employment taxes can be complicated (e.g., business use of home, depreciation)
- Self-employed program can be a default location for complicated returns (sales of stock, COD, foreclosures)

Innovations and solutions

- **Volunteers as trainers** – Utilize your skilled volunteers to conduct volunteer trainings
- **Tools online** – Provide online access to tools such as organizers, income/expense spreadsheets, mileage logs, resource library
- Make **staff more accessible** to customers
- **Online registration** – Have returning customers sign up online for appointments
- **Remote tax preparation** – Use Skype, fax, and email to prepare taxes remotely (for those in rural areas)
- **Use resources** – irs.gov and state revenue sites are useful

Tax time as a “money moment”

We offer the following services at our tax clinics:

- **Access to financial services** – Free credit reports, savings accounts, and prepaid debit cards
- **Partnerships** – Pro-bono financial planners at our tax clinics advise on cash flow, credit, retirement planning for self-employed individuals
- **Referral for financial counseling** – Debt management, budgeting, and credit improvement
- **Bridge to Benefits** – Screening for public benefits

What our customers say – results from a recent survey

- 69% rated the organizers as being extremely useful
- 72% responded that our tax preparers were very helpful and they learned more about taxes during the preparation process
- FAQ's and one-page summaries on tax topics are the preferred educational tools
- Main topics of interest: expenses and basic deductions, depreciation, business use of the home, and mileage
- Quotes:
 - Keep good records [many stated that].
 - Know personal as well as work mileage. Keep track of receipts.
 - What to ask for. What to do with your finances.
 - That I need to start thinking about taxes much sooner in the year.
 - It is best to have an idea of how taxes work to apply it to your future taxes.





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Small Business Tax Preparation Program

Rebecca Pear

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- Opened January 2001
- Mission is to provide a safe place to save, to return those savings to the community in the form of loans, and to provide opportunities for financial education



Community Profiles

Bushwick

- 28% of people live below the federally determined poverty line.
- 51% of people receive public assistance
- 17% unemployment

Bedford Stuyvesant

- 35% poverty rate
- 44% of people receive public assistance
- 20% unemployment

Combined median income is \$26,100

Eight banks serving a total population of 250,000

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Credit Union Services

- ✓ savings, checking with an ATM/debit card, online banking
- ✓ personal, auto, secured/credit-builder loans
- ✓ mortgages, home equity loans and lines of credit
- ✓ small business loans
- ✓ small business technical assistance / tax preparation
- ✓ free financial counseling

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Activity to date

- ✓ 7,000 members have saved \$12 million
- ✓ 6,500 loans closed, totaling \$27 million dollars
- ✓ among the top microlenders in NYC



501(c)3 affiliate: Grow Brooklyn, Inc.

Annual free VITA tax preparation for individuals and families

- operated in 2012 with 2 locations; prepared over 3000 returns

Foreclosure prevention program

- Bushwick and Bed-Stuy are among the top 5 community boards in NYC in foreclosure cases



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Brooklyn Cooperative Fee-based Self-Employment Tax Preparation

Designed to fill gap in services between mainstream
fee-based tax sites and VITA free tax programs



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Gap in Self Employed Tax Prep Services

Pop-up tax sites (HR Block, etc) are costly and unreliable

- Mainstream tax sites only file taxes, limited explanation of benefits of recordkeeping, no incentive to promote other financial services
- Seasonal: many sites only operate during tax time

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Gap in Self Employed Tax Prep Services

VITA program has limitations

- IRS restrictions on preparing returns with Schedule C
- Seasonal: most programs only available during tax season
- Requires grant subsidies to operate
- Dependent on volunteers with a range in abilities, self-employment tax knowledge

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Population Served

- Young college-educated freelancers and low-income microentrepreneurs (ex. artists, graphic designers, daycare providers)
- Undocumented immigrants (ex. street vendors, restaurant workers, construction workers)
- Individuals who have received IRS or NY State tax letters during off-season.



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Self Employment Tax Prep Program

Fee-based Services:

- Tax preparation: Schedules C (business) and E (rental real estate), some basic corporation returns and sales tax
- Phone calls to the IRS / NY State Department of Taxation

Free Services:

- General consultations and assistance with:
 - Bookkeeping
 - Types of business formation
 - Sales tax filing
 - State and Local license and Certificate requirements

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Core Program Goals: Integrated Services

Tax clients referred to Credit Union Services:

- Loans
- Separate Business Checking accounts
- Financial counseling
 - Credit Builder loans

Credit Union clients referred to Tax services:

- Foreclosure counseling- Schedule E clients need to be up to date with taxes to qualify for a loan modification
- Financial counseling clients who haven't filed back taxes

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Core Program Goals:

Clients benefit from teaching opportunities

- Develop Good Recordkeeping Habits
- Understand Significance of Tax Forms
- Understand Tax Compliance Responsibilities
- Aware of Tax Sheltered Options for Retirement / Education
- Understand Relationship between Taxes, Loans and Credit
- Aware of Health Insurance Options

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Core Program Goals:

Creating a sustainable program

Goal is to fund 70-80% of operating costs of the program with earnings from the business tax assistance program

- Tax preparation for a below market fee
 - Typical fee is \$50
 - Over 150 business returns prepared/year
 - In 2011, program generated \$12,000
- Costs:
 - 1 P/T Tax preparer / small business counselor
 - Tax preparation software
 - Marketing costs

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Challenges

- Can't use referrals from VITA program – must remain completely separate
 - Used Freelancer's Union, client referrals, local news sources, and referrals through other Brooklyn Coop programs
- Certain returns, tax questions require additional expertise. Difficult to find a low-cost, quality referral option.

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Client Success Stories

Guacuco Restaurant:

- Business loan client
- Provided Recordkeeping assistance
- Prepared 2010/11 returns

Construction company:

- Filed taxes
- Created P&L Statements for local government contract procurement requirements.



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Next Steps and New Approaches

- Improved intake scheduling / client follow-up/tracking
- New marketing sources – identify more Spanish speaking outlets

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Thank You



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Thank You!

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