

Income Tax Training for YWAM Staff/Members: Video Notes

Overview of 1040 (03:47)

- YWAM staff paid as 1099 independent contractor.
- The taxes you would normally split on your W2 with your employer are now 100% your responsibility.
- Self-employment tax is 15.3% of your net income.
- You are also responsible for personal income taxes (if your income is high enough, see below)

Income (06:23)

- Business income = anything you receive where the giver intends for you to use that money for your ministry
- Personal income = money from friends/family intended for personal use (i.e. birthday money from parents)
- To distinguish difference, ask yourself: "Would I have received this money if I didn't work for YWAM?"

Deductions (08:26)

- Trying to figure out if a certain expense is deductible: "Did I spend this money in order to raise support or to do my job?"
 - o If yes to either, then it is a business expense.
 - o Money received/spent as a student is NOT business related.
- Deductions only apply to expenses that have already been paid.
- Contemporaneous records: Keep track of all deductible expenses on a weekly or monthly basis (a log of what the expense was for and how much it was) – if you do this, then you don't need to keep receipts for all of these expenses.
- Mileage (09:20)
 - o Business mileage is one of the biggest deductibles for YWAM staff (incurs anytime you use your personal vehicle to do your job)
 - o Standard mileage deduction: 57.5 cents/mile
 - Mileage is a red flag for IRS auditing, so this needs to be recorded meticulously.
 - Recommended app: Mile IQ (or similar)
 - Other option: paper log
 - You can keep track of all vehicle expenses (insurance, maintenance) separately and compare it to standard mileage deduction to see which is more.
 - o Commuting mileage: If you don't live on campus, any miles from your home to base.
 - These are not deductible, but the number is needed for tax purposes.
 - o Other mileage: Personal
 - To track this, note mileage on your vehicle at beginning and end of the year, subtract business and commuting.
- Advertising (12:55)
 - o MailChimp or any newsletter delivery service that is paid.
 - o Website that details your work
- Membership Fees for YWAM (13:35)
 - o Remember, these are only paid fees.
- Income Tax Preparation Fees (14:45)
 - o YWAM discount rates through Bethany: \$100 individual/\$150 married joint filing
- Office Supplies (17:03)



- Postage for newsletters, thank you letters, gifts for donors.
 - Paper, pens, etc. for work
- Travel Expenses (17:48)
 - Plane ticket (for outreach and raising support)
 - 2020 staff fees included airfare which needs to be split in order to be written off.
- Meals (19:03)
 - Taking a supporter or student out for a meal

Form 1040 Schedule C Workflow (22:13)

- Business Income = Net income (amount received from supporters) – total of deductible business expenses
- Self-employment tax (15.3%) calculated from business income.
 - This value is considered an adjustment.
- Adjusted gross income = Business income – adjustments
- Standard deductions: Single or married filing jointly
 - If you spent most of your income on medical expenses or you own a house, you might consider filing an itemized deduction instead.
- If your standard deduction is more than your adjusted gross income, you do not have to pay personal income tax on your income.
- Qualified business income deduction: 20% of income
- Taxable income = (standard deduction + qualified business income deduction) – adjusted gross income
 - If the answer is negative, the taxable income = 0 (meaning you don't owe anything in personal income taxes)

Tax Planning (36:25)

- Tips for paying off tax balance,
 - File early to give yourself time to save the money (payment is due April 15th)
 - Go through IRS to set up installment agreement and pay in monthly installments,
- Quick calculation of what you will owe in taxes:
 - Business Income = Net income (amount received from supporters) – total of deductible business expenses
 - Business Income * .153 (self-employment tax) = Amount you owe
- To save for the future: calculate what you will owe this year and next year in taxes.
 - Divide this number by what you hope to earn in support next year.
 - Resulting decimal = percent of income you will need to set aside for taxes
 - Every two weeks, transfer this percentage of donations received to a savings account designated just for tax payments.
- Estimated Tax Payments
 - Can be paid online to IRS (irs.gov) throughout the year.
 - Due dates: April 15th, June 15th, September 15th, January 15th
 - Estimated tax payments are required to avoid underpayment penalty (this penalty is waived if you didn't owe taxes the year before)
- Personal bookkeeping: YNAB (You Need a Budget): Paid budgeting app.
- Have two bank accounts:
 - Receive all donations and pay all business expenses from one account.
 - Transfer money necessary for personal expenses into separate account.
 - This protects you in case of an audit.

General Q&A (50:05) **To schedule a tax appointment with Bethany: sequoiapeople.com/schedule**