



This Month:

- Postcard-Size Form 1040
- Physical Presence No Longer Required!
 - Small Business Financing
- Are Your Earnings Subject to Self-Employment Tax?

Postcard-Size Form 1040

The Internal Revenue Service and the Treasury Department unveiled a draft version of the postcard-size Form 1040 that was promised from last year's tax reform effort. For the 2019 tax season, the shorter Form 1040 will replace current Forms 1040, 1040A and 1040EZ so that all 150 million taxpayers can use the same form. The new form uses a "building block" approach, in which the tax return is reduced to a simple form and supplemented with additional schedules if needed. Taxpayers with straightforward tax situations will only need to file this new 1040 with no additional schedules.

Padgett was represented by Roger Harris, COO, on a call with the IRS Commissioner as he explained the new form and solicited feedback. The IRS plans to continue working with the professional tax community to finalize the streamlined Form 1040 over the summer. Stay tuned as we update you on this new tax filing opportunity!

Physical Presence No Longer Required!

In the recent U.S. Supreme Court case *South Dakota v. Wayfair*, the court determined that the mere "economic presence" in a state can be used to establish nexus for sales tax, even when the vendor has no physical presence. This decision overturned the long-standing law under the famous case of *Quill Corp. v. North Dakota* stating that "the physical presence rule of *Quill* is unsound and incorrect." Economic presence can be met by surpassing an established threshold such as a certain number of transactions or an amount of sales in that state. Each state will have the ability to set their own thresholds and it may take some states longer to respond to this court ruling than others. Contact us to determine if your business will be impacted.

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Small Business Financing

Financing can be one of the biggest obstacles small business owners face. Proper financing can help your business survive, grow or expand and increase profits. The alternative can be as severe as business failure.

A small business' primary use of a commercial finance company is to borrow money for the purchase of inventory and equipment, and to meet seasonal cash flow needs. A trustworthy financier can be an asset to any small business. While right now may be the perfect time to apply for a loan to purchase more equipment, finding a good lender may prove to be challenging. When shopping for a commercial finance company, look for the following qualities:



- **Doesn't sell or broker loans to third parties.** You shouldn't have to worry whether the people you deal with today will be there tomorrow.
- **Provides prompt service.** A good lender is available to address your issues, problems and concerns, and then respond promptly to your needs.
- **Understands the unique needs of small business.** The lender should work with you throughout the business cycle by offering such options as seasonal financing.
- **Does not require outside collateral.** Instead of pledging your home or other assets to secure financing, look for a lender that will apply judgment, not rules, in special circumstances.
- **Has competitive rates.** Compare rates but understand that the lowest rate will not guarantee you the best service. Weigh the two carefully before making your decision.

Not sure if you need financing or if you found a good lender? Contact us for advice!

Are Your Earnings Subject to Self-Employment Tax?

Self-employed persons are subject to a special tax to fund social security benefits under the Self-Employment Contributions Act. All self-employed persons, regardless of age, must file Schedule SE to compute the tax. For sole proprietors, SE tax is assessed on net earnings from self-employment, which is defined as gross income less allowable deductions from a taxpayer's trade or business.

Trade or Business Requirement. To be engaged in a trade or business generally requires your continuous and regular involvement in the activity and the intent of making a profit. Thus, earned income received from an isolated or sporadic activity that differs from your regular trade or business is generally not subject to SE tax because it does not rise to the level of a trade or business. If your side work is in the same line as your regular job, you probably have income subject to SE tax. Side work does not necessarily need to be in the same line of work to constitute a trade or business. All facts and circumstances should be carefully reviewed considering the potential risks of taking a position contrary to that of the IRS.

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PADGETT BUSINESS SERVICES® is dedicated to meeting the compliance, profit financial government reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter. **AMERICA'S FIRM FOR SMALL BUSINESS TAX NEEDS**